MINISTRY OF FINANCE

FLASH REPORT
on key economic and financial developments based on 2005 and early 2006 data

Budapest, 26 April 2006

MAIN INDICATORS

2004 - 2006

Description	2004 preliminary fact	2005 Jan 2006	2005 preliminary fact	2006 Jan 2006	2006 Apr 2006
	annual percentage change at constant prices				
Gross Domestic Product	4.6	cca. 4.2	4.1	4.2 - 4.5	4.3 - 4.5
Domestic use of GDP	2.8	2.5 - 3	0.2	cca. 4	3.5 - 4
of which:household consumption	3.1	cca. 3	2.1	cca. 3.5	cca. 3.5
gross fixed capital formation	8.4	7 - 8	6.6	7 - 8	7 - 8
Foreign trade turnover (goods and services)					
Exports	16.4	9 - 11	10.6	10 - 12	10 - 12
Imports	13.2	6 - 8	5.8	10 - 12	10 - 12**
	annual percentage change				
Gross average wages	6.0	8 - 9	8.8	cca. 5	5 - 7
Net average wages	5.6	9 - 10	10.1	cca. 6	6 - 8
Real wages, per employees	-1.1	5 - 6	6.3	cca. 4	4 - 6
Number of employees	-0.5	0 - 0.2	0.0	0 - 0.5	0 - 0.5
Unemployment rate (ILO), %	6.1	7 - 7.3	7.2	cca. 7	7 - 7.2
Consumer price index (annual average)	6.8	cca. 3.6	3.6	cca. 2	cca. 2
	at current prices				
Foreign trade deficit, Euro billion	3.9	2.9 - 3.1	2.8	3 - 3.5	3.3 - 3.5**
Current account deficit, Euro billion	7.1	6.7 - 7	6.4	6.9 - 7.2	6.7 - 7.2**
	in percentage of GDP				
ESA95 general government deficit*	5.4	6.1	6.1	4.7	5.0**
Current account deficit	8.6	7.6 - 8	7.3	7.5 - 7.8	7.3 - 7.6**

*/ With the effect of pension reform

**/ Including the Gripen deliveries

Introduction

As a result of the continuous improvement of the external economic environment, unbroken for over a year now, the Hungarian economy in 2006 continues to be growing in a sound structure, at a rate exceeding 4 percent. According to forecasts, external conditions for growth will continue to be favourable in the remaining part of the year as well. In 2006, the external demand is expected to pick up over the previous year levels as a result of the continued expansion of global trade.

Similarly to 2005, export growth of 10-12 percent is expected this year again, exceeding external demand growth. As a result of the pick up in domestic demand, in particular of corporate investments with high import requirement, and the significant increase of exports, import growth is expected to reach that of exports (including Gripen deliveries, import growth may slightly exceed that of export). The trade deficit will be between EUR 3.3-3.5 billion. As in 2005, the persistent high oil prices may cause significant price losses this year again through the deterioration of the terms of trade. In 2005, the current account deficit to GDP ratio decreased by 1.3 percentage points, while the external financing requirement declined even more, by 1.8 percentage points. In 2006 both indicators are likely to increase at a rate corresponding to the Gripen deliveries (to 0.3% of GDP).

A number of signs indicate that investment activity, which temporarily slowed down in the last quarter of 2005, will pick up again in 2006. High capacity utilisation figures in the manufacturing sector, intensive motorway construction, the output of the construction sector, growing EU capital transfers and the positive business cycle trends all promise robust investment growth. Based on all this, investment growth of 7-9% is expected this year.

In the first three months of 2006, inflation decelerates even more markedly. The year-on-year increase of consumer prices slowed to 2.3 percent in March, mainly thanks to the reduction of the standard VAT rate. Based on the current conditions, the annual average inflation rate is expected to be 2 percent as it was assumed in the 2006 budget..

The marginal inflation differential between the euro area and Hungary, the stable inflation prospects accompanied by the depreciated Forint (as compared to the average of the previous year) and the yields not increasing substantially in spite of the latter (stable ex ante real interest rates) in combination may result in the easing of monetary conditions.

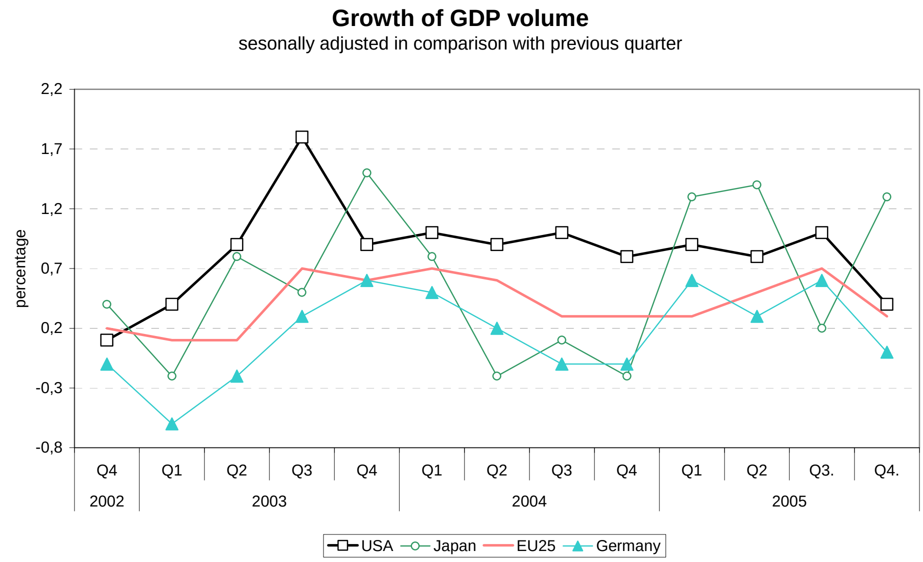
According to the 2006 budget, the planned accrual-based deficit of the government sector (including private pension funds) is 4.7% of GDP. 0.3 percentage points are added to this due to the latest Eurostat decision on the accounting for military procurement. Thus the 2006 deficit in accordance with the EU methodology may be around 5 percent of GDP.

1. External economic environment

The favourable global economic climate of 2005 is to continue in 2006

Despite the risks in the almost 45% increase of oil prices last year, in 2005 the global economic growth was 4.6%, barely falling short of the intensive growth seen in 2004. During the whole year, the 3.5% growth of the United States played a major part in the development of a positive business cycle. Nevertheless, global economic growth is less and less dependent on the performance of the United States; the growth of China (9.9%) and of the Asian countries (except for Japan), and of oil exporting countries have increasingly become drivers of growth. During 2005, global trade expanded significantly, at 7.25 % on average for the year.

According to the forecasts for 2006, the positive global economic performance will remain in most part of this year, but as a result of monetary tightening in several regions of the world, growth is expected to slow down by the end of the year.

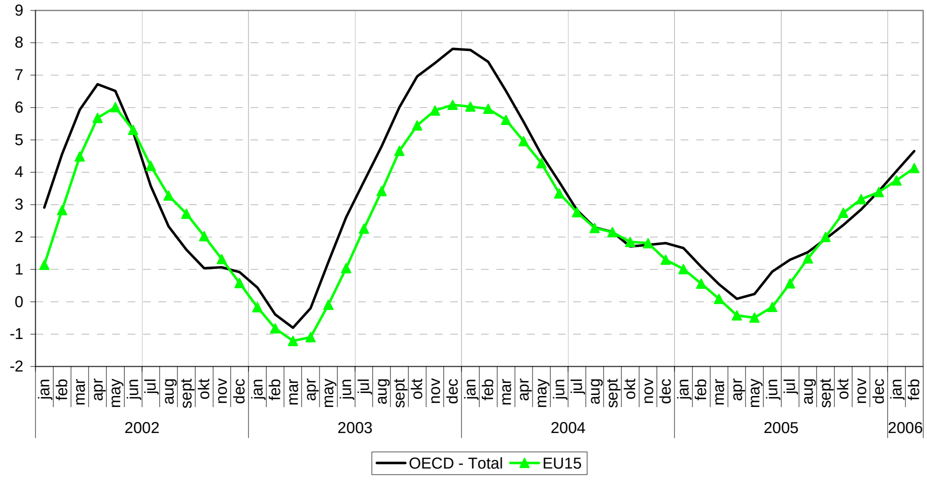


Steady improvement is expected …

The Composite Leading Indicator of the OECD[1], which is used to forecast the turning points in business cycles, has shown a steady increase since the summer of 2005 both for the entire OECD and for the EU-15. Thus the indicator forecasts stable improvement in the external economic environment for Q2 and Q3 2006.

[1] OECD Composite Leading Indicator (CLI), 7 April 2006

OECD Composite Leading Indicator
6-month rate of change at annual rate



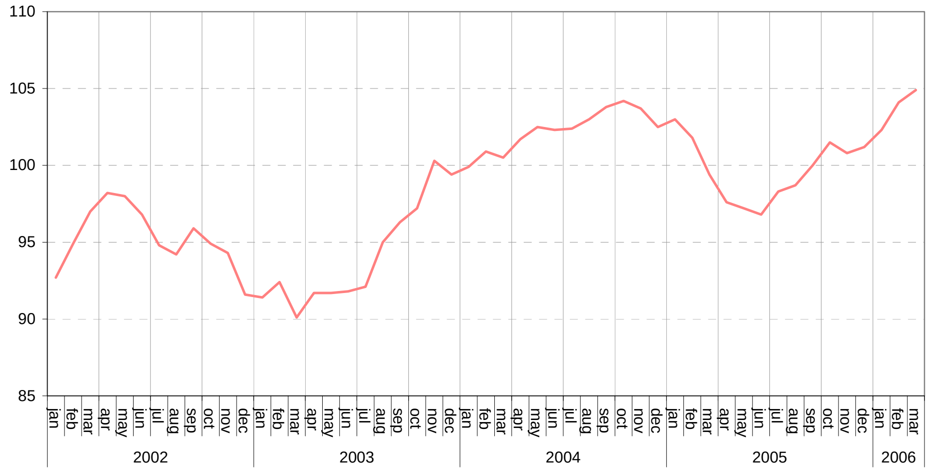
… in OECD countries

Last year, the European Union saw growing investments and exports

In 2005, growth in the European Union (EU 25) increased gradually, quarter by quarter, based on annual rates adjusted for the seasonal effect and for the working day effect. For the whole of the year, the GDP of the European Union increased by 1.6% in volume terms, and that of the Euro area by 1.3%.

The accelerating investment growth of last year played a major part in the improvement, while consumption showed only a very slight increase despite the strengthening of consumer confidence. The poorer performance of consumption is attributable to the weak expansion of employment and of disposable income, the deterioration of purchasing parities due to oil prices, and the continuing high savings ratio. As a result of the significant devaluation of the Euro since the beginning of the year, exports picked up in most of 2005, though they still remained below the high volume growth of 2004. The trend of the composite business and consumer confidence index (ESI) for the EU has been improving since the summer of 2005. Even though actual figures do not seem to support such optimism, economic actors still consider the outlook to be improving.

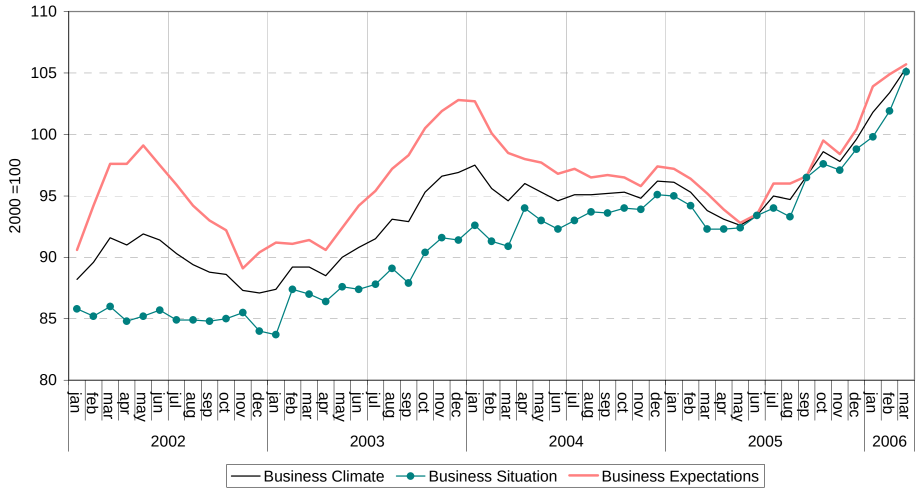
EU25 Economic sentiment indicator
(seasonally adjusted, average=100)



In the German economy, confidence indices and the real performance of the economy are somewhat in conflict. While GDP growth fluctuated from quarter to quarter – expected to be 0.9% annually – the IFO Business Climate Index has been improving almost continuously since May 2005. The index has broken 15-year records, increasing from the low of 92.9% in May to 105.4% by March 2006, while business actors have positively assessed the current situation and the outlook alike.

Business confidence continues to increase in Germany

IFO Business climate for Germany



In the EU Member States outside the euro area, significant economic growth was seen in 2005. Of the Visegrád countries, the annualised growth rate was 6% in the Czech Republic, 6% in Slovakia and 4.1% in Hungary, while GDP growth in Poland in the same period was more modest at 3.2%

New Members States growing dynamically

High oil prices and global external disequilibria present the most significant downward risks this year again. Despite their current high levels, oil and energy prices may continue to increase in the forthcoming period. Even though in 2005 they had no major impact, this year they may trigger indirect effects again resulting in the deterioration of purchasing power and the growth of consumption expenditures.

Upward and downward risks are equally present

Box 1.: Expected economic impacts of the consolidation package of Germany

By the end of 2005, Germany had embarked on another growth phase, where the growth of internal demand and of investments may also be started. However, the expected upturn is rather fragile, the effects of the proposed fiscal reform package are difficult to forecast: it may either break or strengthen the current cyclical growth phase.

Of the major steps proposed by the German government in the forthcoming two years, the 3% increase of the turnover tax as of 1 January 2007 will have a direct and significant impact on internal demand. This is a unique measure, as such an increase of the turnover tax is unprecedented in Germany, and the change was announced one year before its implementation.

During 2006, internal demand will be increased by consumers bringing forward their purchases, thus the annual consumption expenditures of the private sector may increase by as much as 0.5 percentage points. This trend may be heightened by household confidence increasing as result of the improving GDP growth and the lasting fiscal consolidation. The savings ratio, which has been consistently high in Germany since the beginning of the decade, may fall significantly due to the increase of the turnover tax. In 2007, the backlash of the consumption brought forward may be experienced in the decline of internal demand.

Construction investments will be similarly affected by the tax increase; households will try to complete their constructions in 2006. As the real estate construction of households represents over half of construction investments, this effect will probably be reflected in investment figures.

At the same time, corporate investments will be influenced by another government measure. Until the end of 2007, depreciation rules favourable for enterprises will be effective. As a result of the accumulated demand withheld in recent years, the increased capacity utilisation, higher profits and improving outlooks, companies are likely to make use of that opportunity and increase their investments in both years.

On the whole, a significant increase of internal demand is projected for 2006, and its decline for 2007. Considering that the slow-down of growth in 2007 is explained by non-recurring factors, a higher level may be expected in 2008 again. As an uncertainty in forecast, it is not know how the labour market conditions, currently under review, will promote or hinder the apparent expansion of domestic demand. The turnover tax increase may break that trend, as in the absence of employment growth the disposable income and purchasing power of consumers may deteriorate at the same time.

However, the increase of the turnover tax is only one element of the proposed reform package, and the long-term effects also depend on the success of other reforms. In forthcoming years, the minimum wage may be introduced, and the health care reform, the tax reform (as of 1 January 2008) and the modernisation of the federal government (first half of 2007) may also be developed.

Global external disequilibria continued to increase in the past half-year; the later the adjustments are made, the greater risk they present for the development of the global economy.

In the United States and certain Member States of the European Union, excessive expansion of the real estate market and, simultaneously, the increasing indebtedness of households may be followed by an adjustment, while in EU Member States the continued growth of the real estate markets may have a positive effect on the output of construction.

The effects of the German consolidation package, which proposes major reforms for 2006-2007, present an uncertainty specifically in the European Union. (See Box 1. for details.)

2. Growth factors

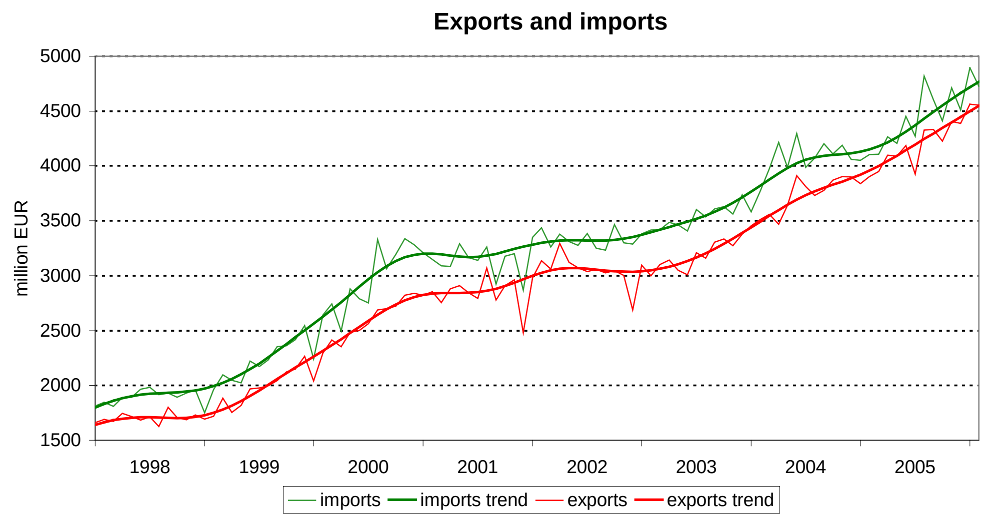
2.1 Foreign trade and competitiveness

2.1.1 Foreign trade of goods

Import and export growth accelerating since early 2005

The growth of exports and imports, which had been declining as from the second half of 2004 as a result of the sluggish external expansion, started accelerating in February 2005. Seasonally adjusted monthly trends indicate that exports have increased by 1.1-1.2 % since March. Imports showed a more dynamic increase, monthly growth rates increasing from the low level of 0.2%

in Q4 2004 to 0.8 % in the first half-year and to 1.3 % in the second half-year. In January-February 2006, the high, 1.1 % per month growth of exports-imports continued.



Early in 2006 outstanding export-import growth

In 2005, exports increased by 10.8% in volume terms. Following the modest growth of 7.7% in Q1, exports picked up considerably in Q2, growing by 12.5% in volume terms, while in the second half-year their expansion declined to 11.4%. The volume of imports, after a slow increase of 3.2% in the first half-year, produced a more robust growth of 7.3% in the second half of the year; imports went up by 5.3% in the entire year. In euro terms, exports increased by 11.4% over the base period; the 8.3% value index of imports is significantly higher than the volume index due to the rise of crude oil prices. In the first two months of 2006, exports in volume terms increased by 17.5%, imports by 11.5%, while in euro terms exports expanded by 17.9%, imports by 17.4%.

The trade deficit significantly declined in 2005; the equilibrium, net of price loss, improved at the beginning of 2006

In 2005, the trade deficit was EUR 2879 million, which is 1.1 billion less than in the base period. The balance improved in the first half-year over a high base, while in the second half-year the trade deficit increased slightly. The worsening of the terms of trade resulted in price losses of over EUR 1.1 billion. In January-February 2006 the trade deficit was EUR 418 million, similar to the figures seen in the base period. The subsequent worsening of the terms of trade caused price losses of almost EUR 200 million. Without the price loss, the balance improved at the beginning of the year due to real processes.

The detail structural and country–group export and import assessment below is based on the year 2005 figures.

The commodity structure of exports was dominated, due to its high share, by the exportation of machinery with its 10.5% growth, but every sector (with the only exception of communications technology) increased its exports substantially. Machinery exportation growth was driven by the exports of energy generation equipment, office machinery and data processing equipment, road vehicles (engines) and electric machinery. The almost 11 % volume growth of manufacturing was attributable primarily to the expansion of the exportation of pharmaceuticals, plastics and rubber products. The exports of fuels (crude oil products) and of food products (cereals and sugar) produced the most dynamic growth (20.6 % and 12.5 %, respectively, in volume terms). On the other hand, the exportation of communications technology, textile and clothing products declined.

The commodity structure of imports was also dominated by machinery importation, its approx. 4.3 % growth originating primarily in the importation growth of machinery and components of 20% (in euro terms) from non-EU countries for re-exportation and in machinery imports for investment purposes (energy generation equipment, specialised machinery). The importation of food products showed a significant growth (at 12 %), such imports from Member States increased by 19 %.

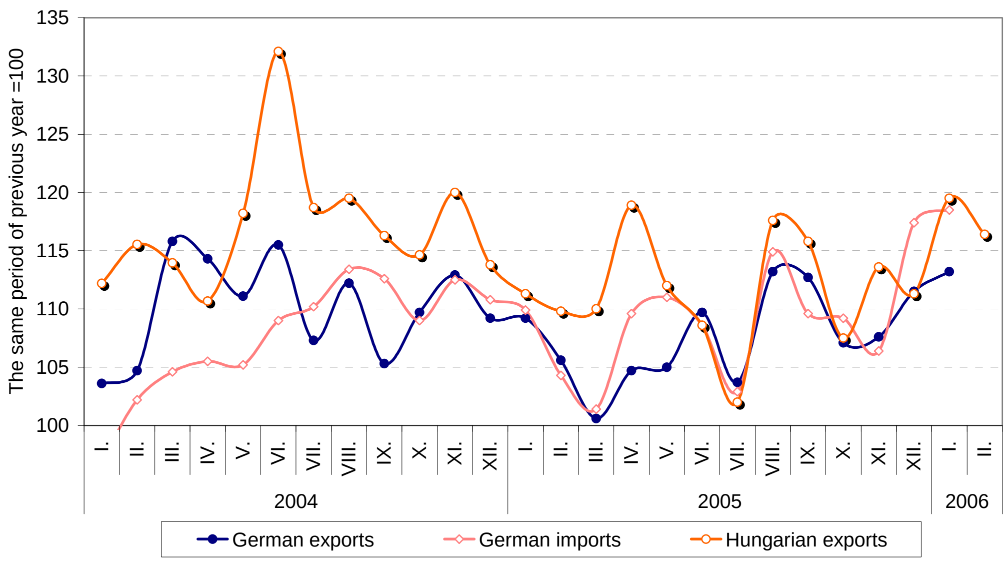
Terms of trade for Hungary continuously worsening

Terms of trade for Hungary worsened by over 2% in 2005 due to rising fuel prices. The terms of trade worsened by only 1% in the first half-year, while in the second half of the year their deterioration came close to 3.5%. In the first two months of 2006, the worsening of the terms of trade exceeded 4% due to the continuing rise of fuel prices.

Exports into EU15 countries increasing significantly since August

In terms of country groups, the volume of exports to the European Union increased by almost 6.7 %; exports to the EU15 remained flat during the first seven months, then rose sharply, producing a 3 % annual volume growth. Export trends show a close correlation with the export trends of EU Member States, in particular Germany (supplier activities).

German foreign trade and Hungarian exports of goods

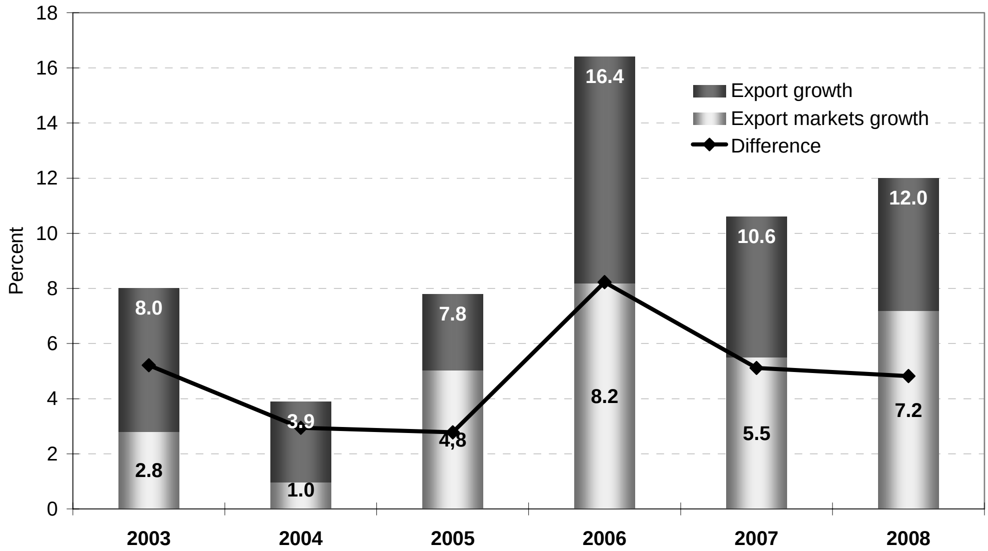


Intensive expansion of exports continued into new Member States and non-EU countries within Europe

Exports into new Member States have been increasing continuously at a rate significantly above the average since 2003 (by 25-30% in volume terms). That trend continued in 2005, the volume of exports growing by 37%. In respect of countries outside the European Union, the volume of both exports and imports increased at rates exceeding the average: by 27 % and 16 %, respectively. Exportation into extra-EU countries in Europe (Russia, Romania, Croatia, Bulgaria, Turkey) increased by 31 % in euro terms. The importation for export purposes from Asian countries (Japan, China, Hong Kong) increased by over 26 % in euro terms. As a result, the commodity trade became more diversified, the share of EU15 countries falling from 71% of exports to 65 %, and from 63% of imports to 58% as compared to the base period.

Against the improved business cycle of the European Union, in 2005 the demand on our export markets remained below the outstanding level of 2004[2], but it still grew faster than in the 2001-2003 period. In 2006, we expect the export demand to pick up over the previous year levels as a result of the continued expansion of global trade.

The growth rate of exports and export markets



The growth of Hungarian exports has exceeded the expansion of the export markets for years. This is because, alongside the EU15, and in particular Germany, which have a significant share of Hungarian exports, the share of the new Member States and non-EU European countries has been increasing significantly in Hungarian exports. Thus the export markets for Hungary have become more diversified, the share of the EU-15 countries in Hungarian exports declined by almost 11 percentage points between 2002 and 2005. Export growth of 10-12% is likely again in 2006, which exceeds the growth of external demand. As a result of the expansion of domestic demand, in particular of corporate investments with high import content, and the significant export growth, import growth is expected to approximate that of exports; including Gripen deliveries, imports may increase at a slightly higher rate than exports. The trade deficit is projected to be between EUR 3.3-3.5 billion.

2.1.2 Competitiveness

[2] For determining the demand on Hungary's export markets, the import demand of the 10 developed countries most important for Hungary's exports of goods and services and Hungary's 5 major Eastern European partners have been taken into account.

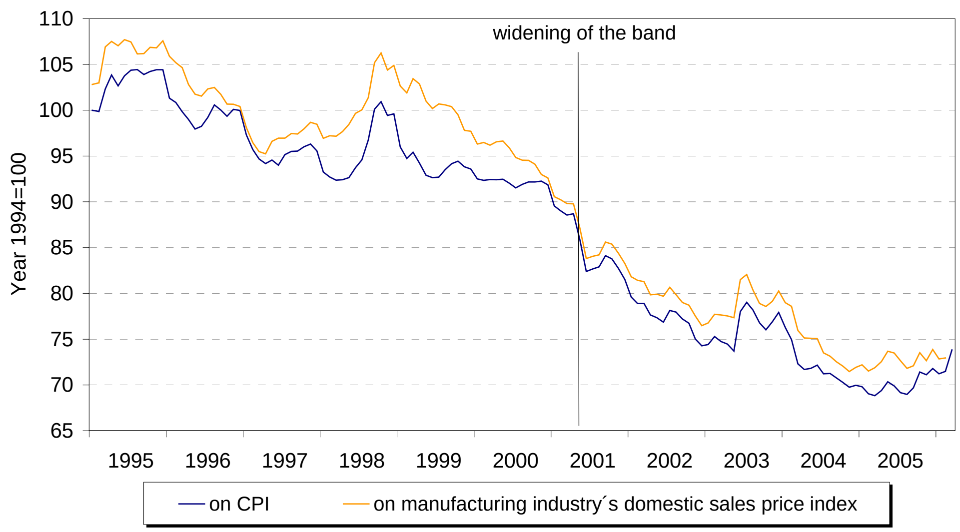
Because of the structural characteristics of the economy, the price and cost-based real effective exchange rate indices have only a limited potential to reflect the competitiveness of the Hungarian economy, but the reversal of trend measured by those indices, which started last year and also continued this year, indicates an improving trend of competitiveness. Last year both price and unit labour cost based real effective exchange rate indices indicated significantly decelerating real appreciation. The favourable trend experienced last year continued this year, the price based indices show real depreciation.

Last year the rate of real appreciation decelerated considerably, this year, real depreciation has been experienced

In 2005, real appreciation of around 2.5% (annual average) occurred both on a CPI basis and on a manufacturing PPI basis. The price-based real appreciation trend significantly decelerated during the year; indeed, from October onwards real depreciation of around 2%, and in December over 2.5%, was recorded on a year-on-year basis due to the slow-down of inflation and the slightly weakening exchange rate. In 2005, as the annual average, the CPI-based real appreciation essentially corresponded to the rate of equilibrium real appreciation generally experienced in fast-growing converging economies.

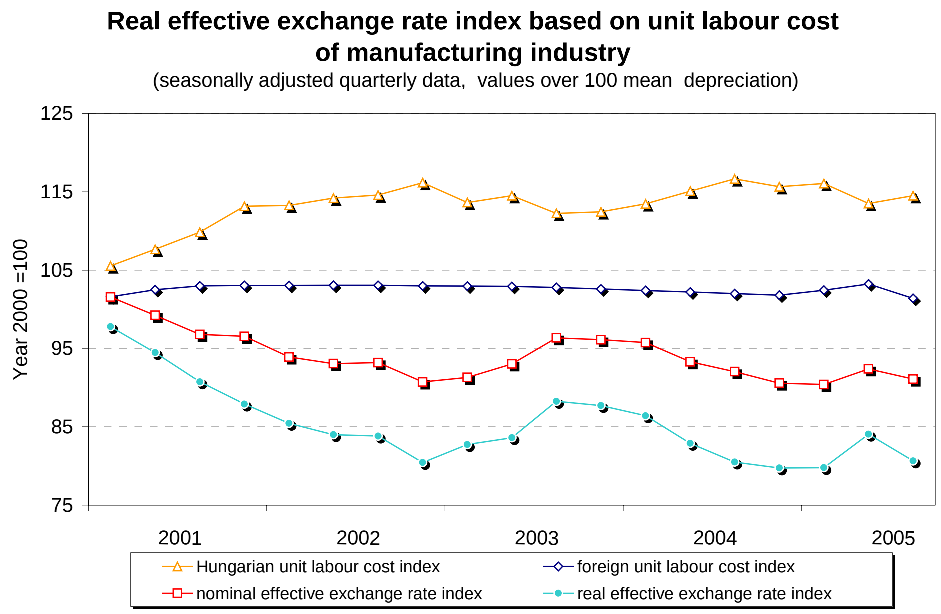
This year, on a year-on-year basis, real depreciation of 4.2% occurred in Q1 on a CPI basis and of 1.4% as an average of the first two months on a manufacturing PPI basis. As no inflation differential to our major trading partners is expected this year while the nominal exchange rate may be weaker than last year, thus real depreciation is expected, on a price basis, for the whole of the year.

Real effective exchange rate index based on prices
(seasonally non-adjusted monthly data, estimation, values over 100 mean real depreciation)

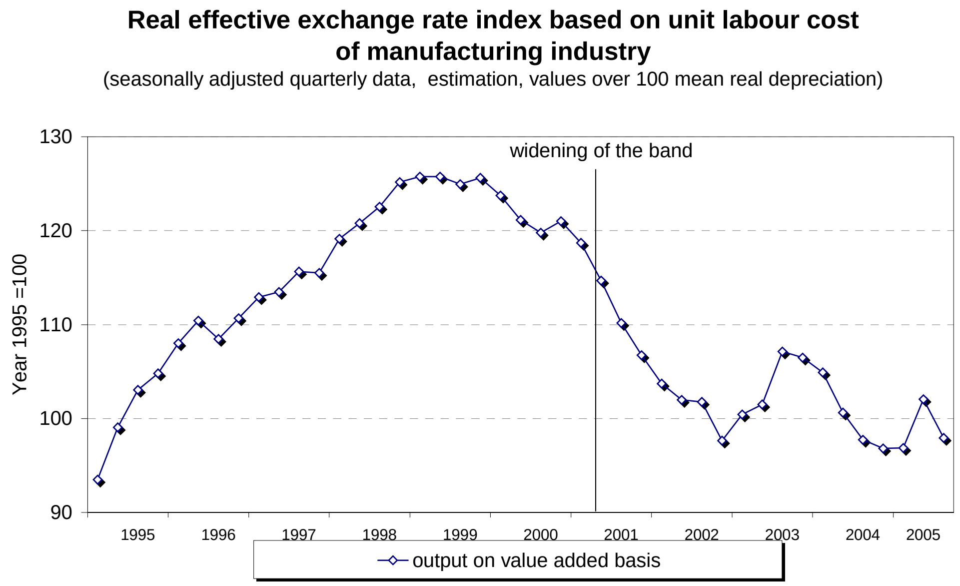


In recent years, real appreciation was driven, apart from nominal exchange rates, by wage increases being substantially higher than the moderate productivity growth. In this respect a favourable turn occurred recently, labour costs and productivity trends growing increasingly in line.

The growth of labour costs and of productivity increasingly in line



In case of a small, open, fast-growing economy, cost competitiveness is a better measure of competitiveness than price competitiveness. Cost-based competitiveness data are available only for Q1-Q3 of 2005, which indicate an approximately 2% real appreciation over the corresponding period of 2004. The significant, almost 8% real appreciation of Q1 was followed by real depreciation and competitiveness improvement. For the whole of last year, the unit labour cost based real effective exchange rate index is not expected to show any significant changes, whereas this year the trends in manufacturing output growth, the wage trends and the weakening exchange rate in combination are likely to result in improved competitiveness.



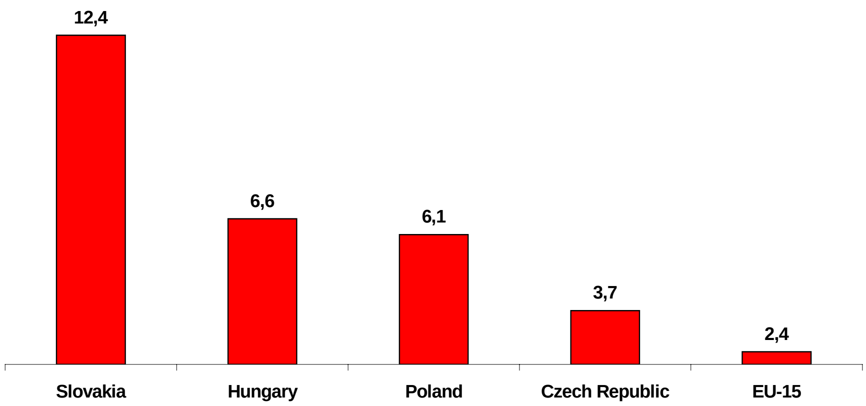
2.2 Investment

Investment activity ranks high in the region

The volume of investment in the national economy increased by 6.6% in the whole of 2005. The growth rate turned out to be lower than expected – the figure of the first three quarters was 8.5% - because investment growth temporarily slowed down in Q4 (3.1%).

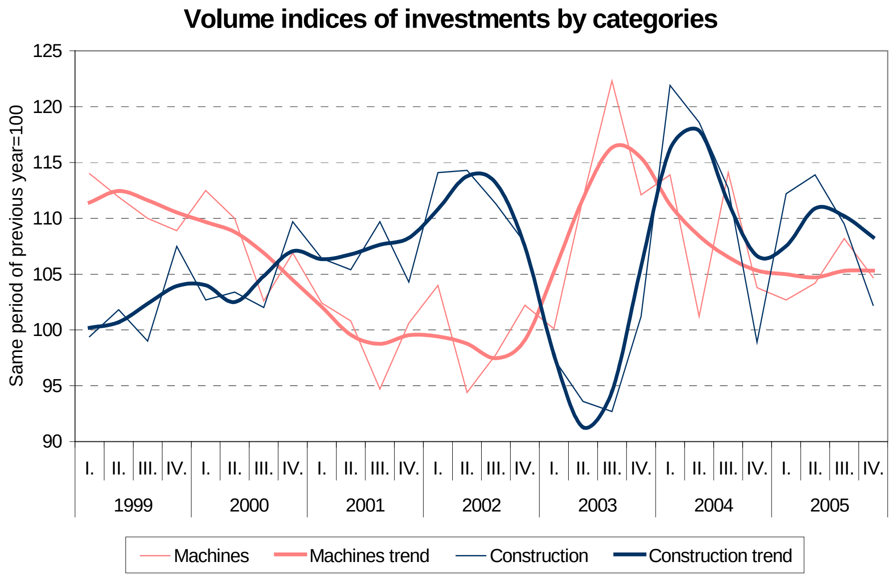
Within the region, Hungary's investment performance ranks high, with only Slovakia ahead of us. The Slovak dynamics is partly attributable to statistical effects because in 2004 their investment growth was substantially lower than Hungary's.

Investments in 2005
(growth rate, %)



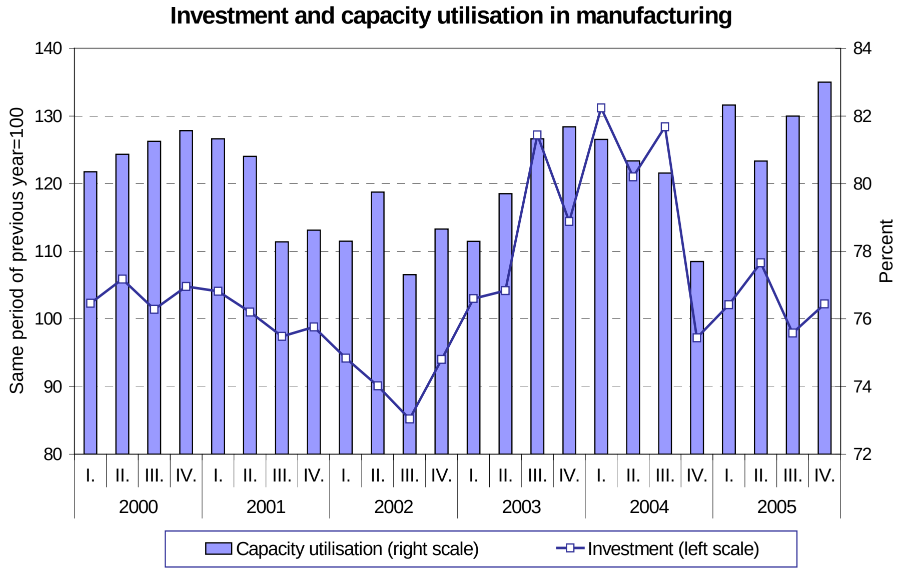
Modest growth of construction investments

The structure of investments reveals that construction investments continue to dominate. However, both construction and machinery investments produced a lower-than-expected growth rate in the whole of 2005 (construction: 7.7 %, machinery: 5.2 %). The dynamic growth of the construction industry (16.4%) is accompanied by unreasonably low investments in construction. This is probably because the robust (19%) growth of construction output in the second half of 2005 will be reflected only in the investment figures of this year.



Last year, investments in the manufacturing sector expanded by 2.4%. Even though the growth rate is rather low, the ability of the sector to increase its investment activity despite the extremely high base of 2004 is a positive sign. The most recent capacity utilisation figures indicate that this slow-down of the growth rate was temporary. In Q4, capacity utilisation in the manufacturing sector stood at 83%, which is not only higher than the Q3 figure but also a record value. Capacity utilisation was substantially higher-than-average in the machine industry (85%), which has a large weight, and in the manufacture of other non-metallic mineral products (86%). Thus the scarcity of capacities may have a positive effect on investment activities in the forthcoming quarters.

Scarce capacities in manufacturing



During the entire year 2005, high-volume motorway construction projects continued: 82 km of new motorway was added to the existing road network (Kiskunfélegyháza-Szeged, Balatonszárszó-Ordacsehi, M0). In Q1 this year, another 66 km of motorways, or three sections, were opened (Szeged-border, Ordacsehi-Balatonkeresztúr, Nyíregyháza orbital). At present, intensive

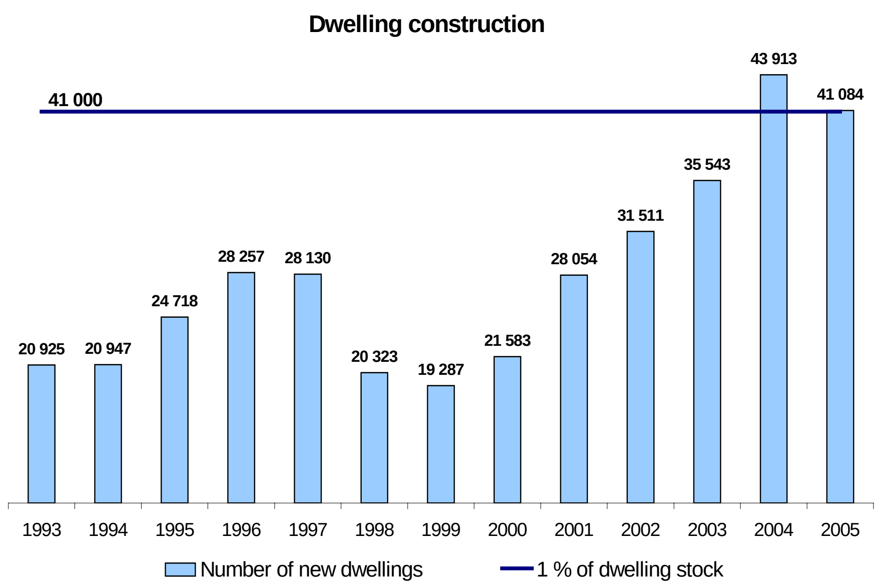
Motorway construction stepped up

construction is ongoing on 9 sections and preparatory work on additional sections.

The dwelling construction drive subsiding

In the whole of 2005, 6.4 % fewer dwellings were put to use, while the number of construction permits issued was 10.4 % less than in the previous year. The decline is attributable primarily to the record figures of 2004, when the number of dwellings put to use increased by over 23%. Despite the decline, the number of dwellings (41,084) continued to be fairly adequate last year, because, according to experts, the rejuvenation of the close to 4.1-4.2 million housing stock would require the construction of at least 41-42 thousand (1%) new homes a year. Since the time of transition, 2004 was the first year when that target was achieved, and that good performance was repeated in 2005.

In 2006, we expect the number of new homes to decline further based on the reduced number of building permits issued. The subsiding of the dwelling construction drive is indicated by the over-supply that emerged on the housing market and the high number of unsold new homes both in Budapest and in the country.



Accelerating growth in 2006

A number of positive signs indicate the pick-up of investment activity in 2006. High capacity utilisation figures in the manufacturing sector, intensive motorway construction, the output of the construction sector, growing EU capital transfers and the positive business cycle trends all promise intensive investment growth. Based on all this, investment growth of 7-9% is likely this year.

2.3 Retail trade, consumption

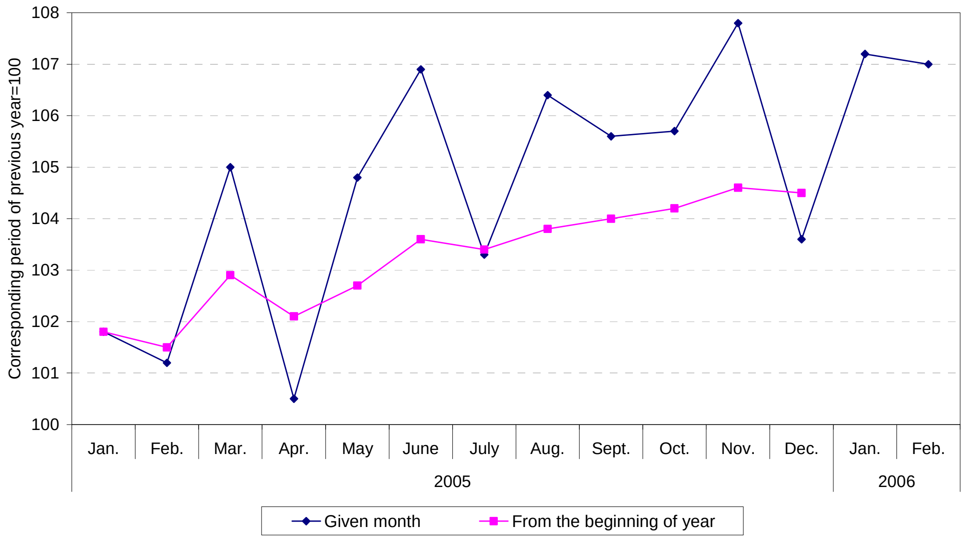
Turnover growth went down in December

The high growth rate of retail trade turnover subsided only in December because, anticipating the expected VAT rate cut, some of the purchases were postponed to 2006. The sales volume adjusted for calendar effect and without the trade of motor vehicles and automotive fuels increased by 5.6% in 2005.

Even though the turnover of food, beverages and tobacco retail trade increased faster in the last quarter, the turnover of manufactured goods produced the higher growth in the entire year.

The growth rate of the turnover of motor vehicles and vehicle parts fluctuated during the year; for the entire year, it was 1.6% higher than in the previous year. The rate of growth of the sales of automotive fuel accelerated during the year; on the whole, sales were 2.6% upon on 2004. The total retail turnover, without adjustments, increased by 6.1% at current prices, or 4.5% in volume terms in 2005.

Volume indices of total retail sales



In 2005, the number of active retail shops increased slightly (by 0.3%). The floor space of shops expanded more dynamically (by 2.5%). The expansion of facilities with large floor space (shopping centres, hypermarkets, specialised stores) continued, and concentration continued both in regional terms and as regards the holder. The number of settlements with shops continued to fall.

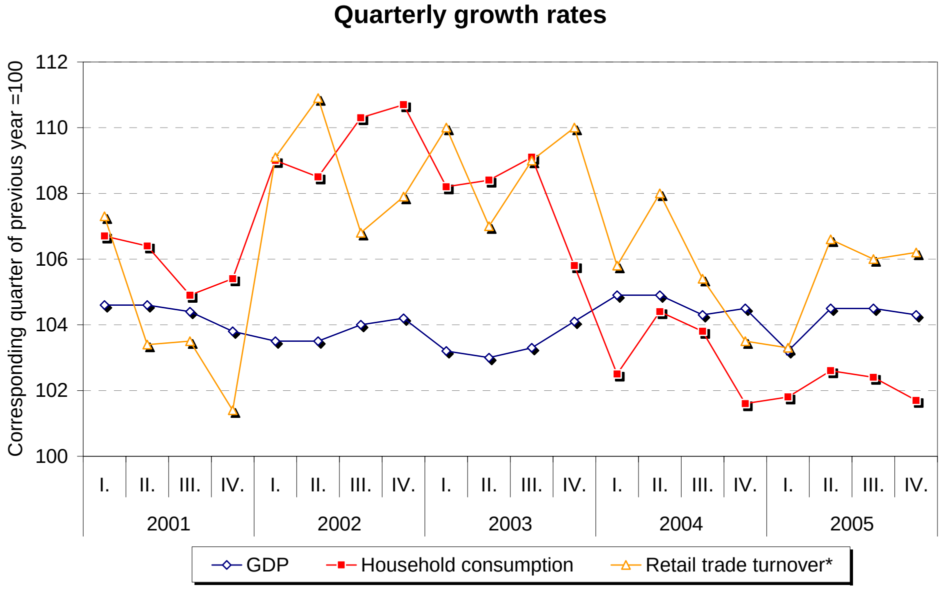
The concentration of retail shops continued

In January-February 2006, retail trade turnover adjusted for calendar effect and without the trade of motor vehicles and automotive fuels was 6.3% higher, and total, unadjusted turnover 7.1% higher than in the corresponding period of the previous year. In Q1, the number of passenger cars sold increased by 8.2 %.

Dynamic growth of car sales early in 2006

According to the national account figures of the CSO, household consumption in 2005 increased by 2.1%, significantly below the rate of growth of GDP (4.1%) and of retail trade turnover. Within that figure, consumption expenditures increased by 2.4%, in-kind social transfers by a mere 0.9 %. The private consumption deflator (105.5 %) was significantly above the CPI (103.6 %). Further analyses are needed to identify the causes of this.

Consumption growing slower than GDP



*Without the trade of vehicles and fuels, adjusted for calendar effect

For 2006, household consumption growth of approx. 3.5% is expected. This rate is in line with the growth rate projected for this year in the Convergence Programme of December 2005.

2.4 Output

Unbroken growth of industrial output

Last year was successful for the industrial sectors: their output increased by 7.3 %, a rate similar to 2004, their export sales growth exceeded that level by 4 percentage points, while domestic sales, which had stagnated for years, expanded perceivably. The output figures for the first two months of this year are also encouraging, even in light of the low base of Q1 2005.

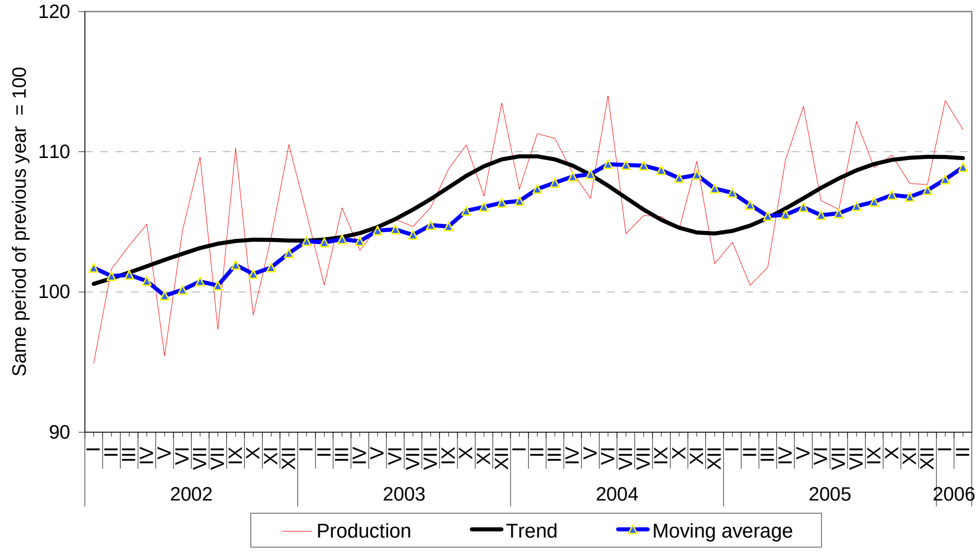
Performance of the industry

same period of previous year = 100

Period	Output	Domestic	Export
		sales	
2005 Q1	**101.9**	100.4	105.1
Q2	**109.6**	105.0	114.4
Q3	**108.9**	106.4	113.3
Q4	**108.4**	105.6	111.3
2005	**107.3**	**104.4**	**111.1**
2006 January	113.7	107.9	122.1
February	111.6	106.2	114.8
Jan - Feb	**112.6**	**107.0**	**118.4**

The trend of industrial output showed the high value (9.6%) of the past four months in February as well.

Volume indices of industrial production



Last year, the output of the manufacturing sector increased dynamically, by 8%. The market environment was highly favourable for two leading manufacturing sectors , therefore the growth rate of the manufacture of electrical and optical equipment last year was twice the growth rate of manufacturing, while the growth of the manufacturing of transport equipment was 50% higher. The manufacture of other non-metallic mineral products was also able to exploit the positive business cycle. As another favourable sign, each of the sectors representing in aggregate over three fourth of manufacturing increased their output. On the other hand, the decline of the manufacture of food products, beverages and tobacco continued, its volume of output has been falling for three consecutive years.

Manufacturing output growth was still driven by exports but, unlike in previous year, domestic sales also expanded last year. The domestic trade of the products of the manufacture of transport equipment produced an outstanding growth of 25% in 2005. The domestic sales of some sectors (manufacture of electrical and optical equipment, other non-metallic mineral products, chemicals) also increased dynamically, while several sectors (manufacture of food products; beverages and tobacco, textile, leather and leather products, wood and wood products, machinery, basic metals and fabricated metal products) experienced a drop in turnover, present for years, resulting from scarce domestic demand. The export sales of sectors were much more balanced than domestic sales, even sectors otherwise forced to cut back production were able to increase their exports. Examples include the manufacture of food products and of machinery. Of the two leading sectors, last year the manufacture of electrical and optical equipment increased its export sales by 16 %, and the manufacture of transport equipment, by 13%.

Since the beginning of the year, the output of manufacturing increased by 14%, its export sales by 17%, its domestic sales by 9%, that is, all three indicators show the acceleration of the growth rate of the manufacturing sectors. The manufacture of transport equipment produced outstanding results in these two months: its output was up by 34%, its exports by 32%, its domestic sales by 38% on the previous year figures. The export sales of the manufacture of chemicals and chemical products also stepped up, growing by 28% in January-February, which was attributable mainly to the expansion of the turnover of pharmaceuticals and paint products on external markets. The growth of the domestic sales of communications products and of computers within the electrical and optical equipment, exceeded 50% in the first two months of the year, while the export sales of the sector also increased by 16%. Though its output growth in volume terms was modest (2%), the food industry also expanded its domestic sales this year by almost 9%. The 21% drop of the domestic sales of the manufacture of other non-metallic mineral products in January-February is attributable mainly to the reduced dwelling construction drive.

The volume of new orders is encouraging

This February the volume of total new orders, export and domestic new orders were all up by 17%. The manufacture of transport equipment, metallurgy, machinery and chemicals all have good export prospects. New domestic orders produced the most intensive growth in two sectors of the machine industry: the manufacture of machinery and equipment and of electric equipment.

The outlook for our industry is determined primarily by the business cycle in Europe, which international forecasts expect to pick up slightly. The scope of subcontractors is expected to increase, therefore the domestic sales supplying to exporters will also expand dynamically. Last year, significant investments were implemented in the machine and transport equipment industry and in the chemical sector. Based on the above, the growth of industrial output can realistically be expected to come close to the 2005 figures.

The output of the construction sector lower than last year

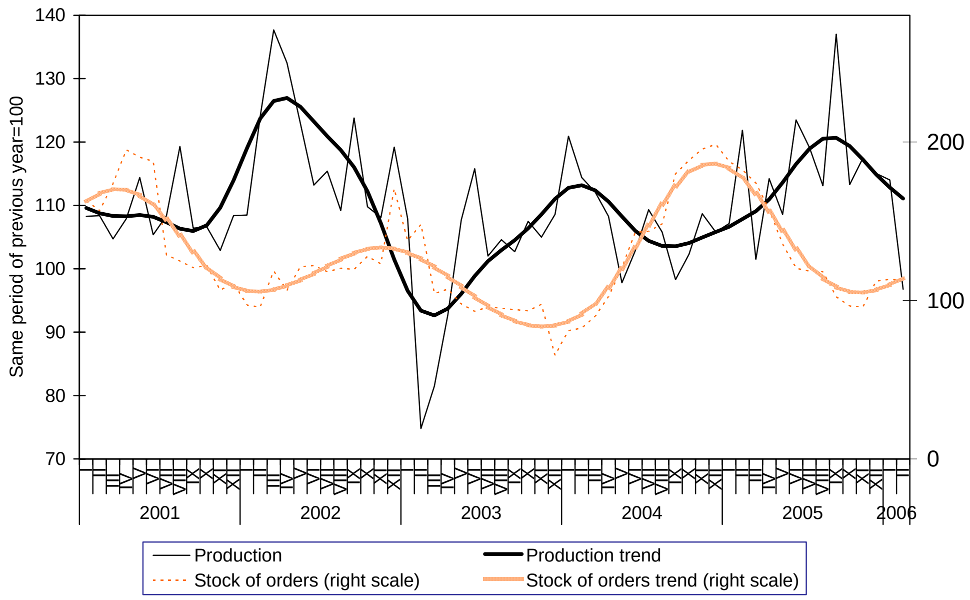
The output of construction increased by 16.6 % in 2005, mainly due to large central infrastructure projects. During the year, each quarter produced a dynamic growth rate. In addition to the decline of housing construction, this is one reason for the construction industry output being significantly below last year's figures this January-February.

Output in construction

Period	2004	2005	2006
Q1	115.4	109.1	
January	*120.9*	*107.1*	*114.1*
February	*114.4*	*121.9*	*96.8*
Jan - Febr	***117.8***	***114.1***	***105.4***
Q2	102.6	115.8	
Q3	104.1	123.1	
Q4	105.6	115.3	
Total	**105.8**	**116.6**	

The trend of industrial output has been declining for months; however, in February its value was still high (11%). The growth rate of the order book moved in the opposite direction, rising from the low of 5% in October to 14%.

Volume indices of production and stock of orders in construction



The volume of new contracts declined

The volume index of new orders concluded in the reference month was 6% below the level in the previous year; within this, 15% fewer new contracts were concluded for building construction and 10% more for other structures. The order-book at the end of the reference period was still 13% higher than in the previous year; within that figure, the orders for buildings increased by 18%, orders for other structures by 11%.

The business confidence index improved among construction enterprises, and intentions to employ strengthened. The continued increase of government orders is also likely, reaching its peak at the time of the local government elections. On the whole, even though the high growth rate of the previous year of the sector is not expected to be repeated, a strong growth is still realistic. The growth rate of the sector is expected to be around 10% in 2006.

Agricultural production in 2005 falls short of the outstanding 2004 levels

According to the preliminary CSO figures, the harvested crop of cereals was 4% lower than the record crop of the previous year, but it still exceeded the average of the 2000-2004 period by 29%. The volume of sugar beet harvested was 40% higher than the average of several years, and the sunflower crop was 35% higher. Both the area of production and the yield of potato declined, while its average yield was 8% higher than in the previous year. According to the survey of 1 December 2005, livestock, with the exception of sheep, continued to decrease below the previous year levels.

On the whole, the procurement of agricultural produce was 8% lower last year than in the previous year; within that, the decline was more pronounced for plant products (9%), while the sale of animal products went down by 6%. In January, the procurement of plant products increased by 1% on a year-on-year basis, while that of animal products declined by 7%. The aggregate result was a 5.5% decline.

The year 2005 performance of agriculture can be estimated only based on indirect data at this point. These data indicate that figures will fall 5-10% short of the outstanding results of 2004. This year, the long winter as well as the large areas covered with surface water were detrimental to over-wintering plant cultures. The effect of a potential epidemic, or the fear thereof, on the markets of animal husbandry, mostly poultry, is also questionable. These may considerably change the outlook of the agricultural sector, which has good starting conditions in other respects.

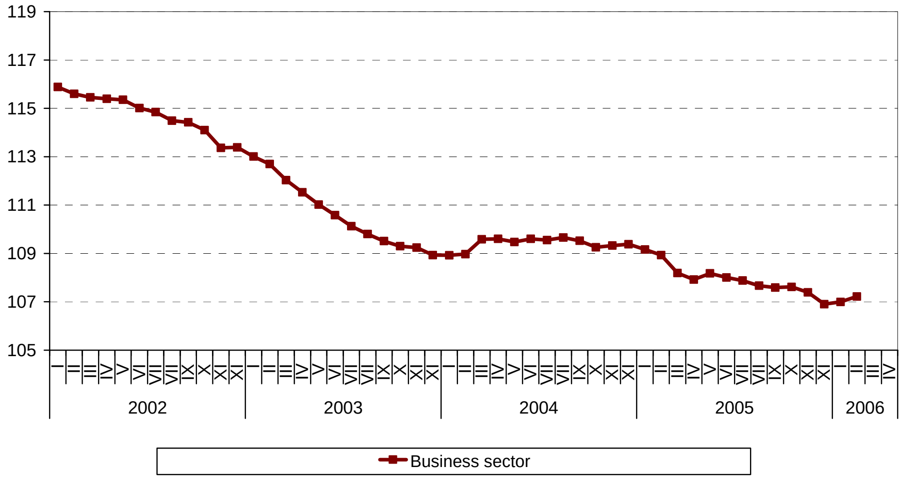
Assuming average conditions, the output of the economy this year may exceed last year's figures

2.5 Labour market

In 2005, gross average earnings in the national economy increased by 8.8%, net average earnings by 10.1%. Broken down by sector, however, wage increases show different trends: in the budget sector, the annual gross average wage increase was over 12%, partly because of the deferment of the 13th month salary to January; growth amounted to 7.7% adjusted for the effects of the one-month additional salary. In the same period, the gross average salaries in the business sector increased by 6.9%, which is almost 2.5 percentage points lower than in 2004, in line with the declining inflation rate.

8.8% gross wage increase

Gross average earnings during the last 12 months (previous 12 months = 100)



Within the business sector, gross average wages increased the least in the food sector (3.2%) and the manufacturing of machinery (5.6%) in 2005. On the other hand, above-average gross average wage increases were registered for employees in the textile industry (8.3%) and in the financial sector (8.1%). In the budget sector, earnings increased above average only in education (13.5 %), while the increase was substantial lower (9.9%) in human health care.

In 2005, net earnings in the national economy increased at a faster rate than gross earnings due to changes in the PIT Act. Because of the abolition of the medium rate of the three-tier tax system effective in 2004, the tax burden was reduced last year, primarily for taxpayers formerly falling in the medium or high brackets. In 2005, net average earnings increased by 8.4 % over 2004 in the business sector, and by 10.1 % in the whole of the national economy.

Real wages increased by 6.3% in 2005

Against an inflation rate of 3.6%, this corresponds to a real earnings growth of 6.3% in the whole national economy. Within this, real wages increased by 4.6% in the business sector and by 9.7% in the budget sector, essentially due to the amendment of the rules of the payment of the 13th month salary mentioned above.

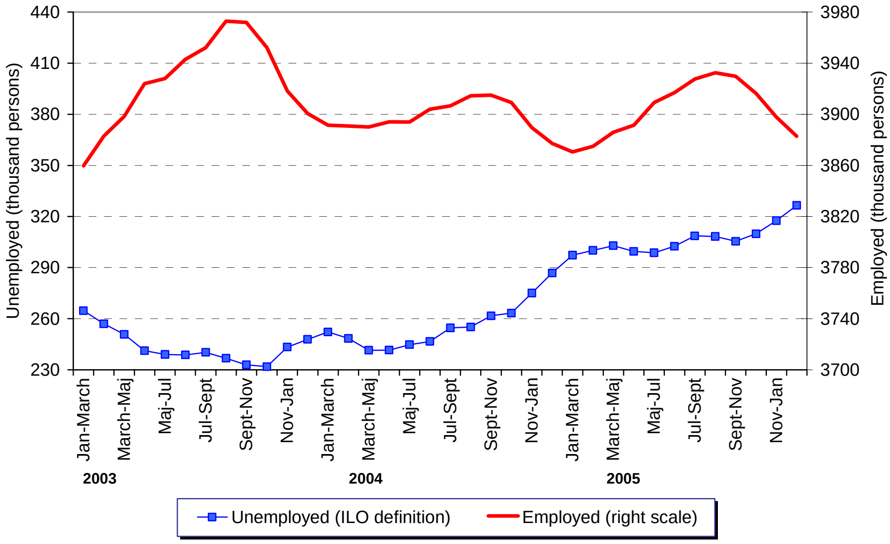
Of the Visegrád countries in 2005, Slovakia produced a real wage growth essentially in line with that of Hungary, while growth was substantially lower in the Czech Republic (3.5%) and Poland (0.8%).

In the first two months of 2006, gross average earnings increased by 7.2% over the corresponding period of the previous year. Within this, earnings increased by 9.1% in the business sector and by 5% in the budget sector. The growth in excess of 9% in the business sector was attributable to a large extent to the 28.5 % average earnings increase of the financial sector, while in the budget sector gross average earnings increased above average in education (7.3 %).

A slight increase in the number of employed persons

For the whole of 2005, the CSO household labour survey indicated a slight growth in the number of employed persons. Accordingly, in October-December 2005 there were 3 million 916 thousand employed and 310 thousand unemployed persons on the labour market. The number of employees increased by 7 thousand (which is within the error-margin of the sample), while the number of unemployed by 47 thousand over the corresponding period of 2004. The unemployment rate was 7.2 % on average in 2005.

Employment and unemployment



The figures of the labour survey for the first two months of 2006 continue to indicate a slight (0.1%) increase in the number of persons employed, while unemployment, similarly to last year, significantly rose again early in the year. Thus, in the December 2005 – January 2006 period the unemployment rate was 7.8%.

Increasing participation on

As a combined result of the increase of the numbers of employed and unemployed persons, the number of economically active persons increased by

54 thousand in the past year, which shows that a significant portion of the inactive have returned to the labour market. In 2005, the participation rate of the age 15-64 population (61.4 %) improved by 0.9 percentage points, the employment rate (56.9 %) by 0.1 percentage points over 2004. Participation increased most significantly in the 55-64 age cohort, where the slight rise in unemployment went hand in hand with the expansion of the number of employed persons. The participation of elder persons increased continuously in recent year, mainly due to the gradual increase of the retirement age. In 2005, the younger, age 15-29 group fared the worst on the labour market, where the rise of unemployment was not accompanied by increased employment rates. The unemployment of young persons is not explained directly by the higher number of graduates because unemployment rose primarily among persons with secondary qualifications.

the labour market

In 2005, despite the unemployment rate (7.2 %) exceeding the 2004 level, all Visegrád countries had higher unemployment than Hungary: 7.9 % in the Czech Republic, 16.2 % in Slovakia and 17.7 % in Poland. In this period, however, Hungary had the lowest growth rate of the number of employed persons (0.1%) among the Visegrád countries: employment rose by 2.1 % in Slovakia, 1.9 % in Poland and 0.7% in the Czech Republic.

Unemployment rate rising but still lower than the international average

According to the institutional statistics, the coverage of which is narrower than that of the CSO labour statistics as it does not include employees of firms with less than five employees and persons working outside employment relationships, on average, 2 million 787 persons were employed by businesses with at least five employees and by budgetary institutions in 2005. The headcount of the business sector increased by 0.2 %, that of the budgetary sector declined by 1.3 % as compared to the 2004 figures.

The number of employed persons stagnating in 2005

The figures from the first two months of 2006 show a less favourable picture. Accordingly, the number of persons employed in the national economy fell by 0.8% on a year-on-year basis. The adverse developments arise from the fact that the number of employees fell by 0.4% even in the business sector, which had previously expanded employment, while in the budget sector the staff reduction (2.2.%) was more substantial than in previous year.

The most significant decline occurred again in the “traditionally” staff-cutting textile sector (10.5 %), furthermore, employment also decreased in agriculture, the chemical, electricity supply, transportation, warehousing and hotels and restaurants sectors. Furthermore, the rate of increase in the traditional employment-growth sectors of recent years declined slightly, with the exception of construction, where the number of employees rose sharply, probably partly due to the tighter labour inspections introduced last year, therefore these sectors have been unable to offset the employment decline of the aforesaid sectors.

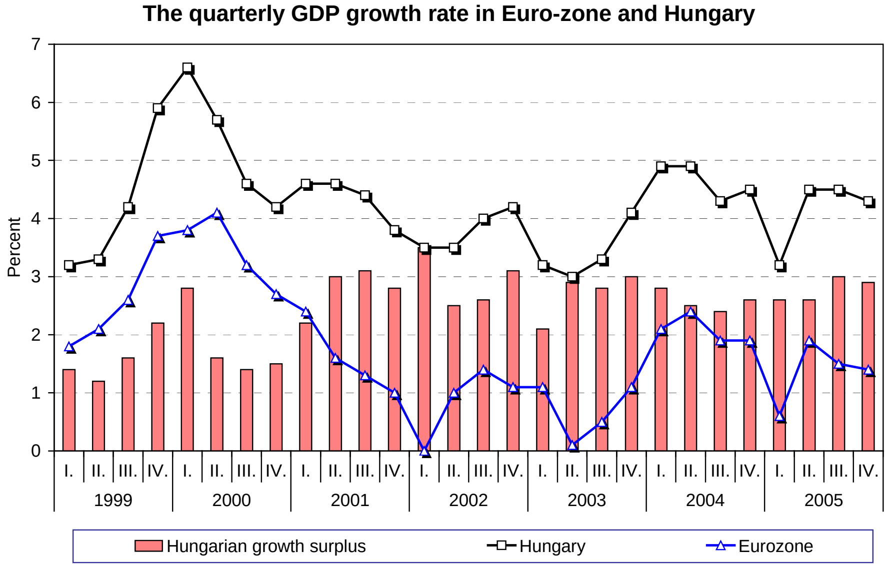
2.6 Gross domestic product

GDP increased by 4.1 % in the whole of 2005. The growth rate adjusted for the leap-day effect, which gives a more realistic picture of actual economic trends,

Stable economic upswing

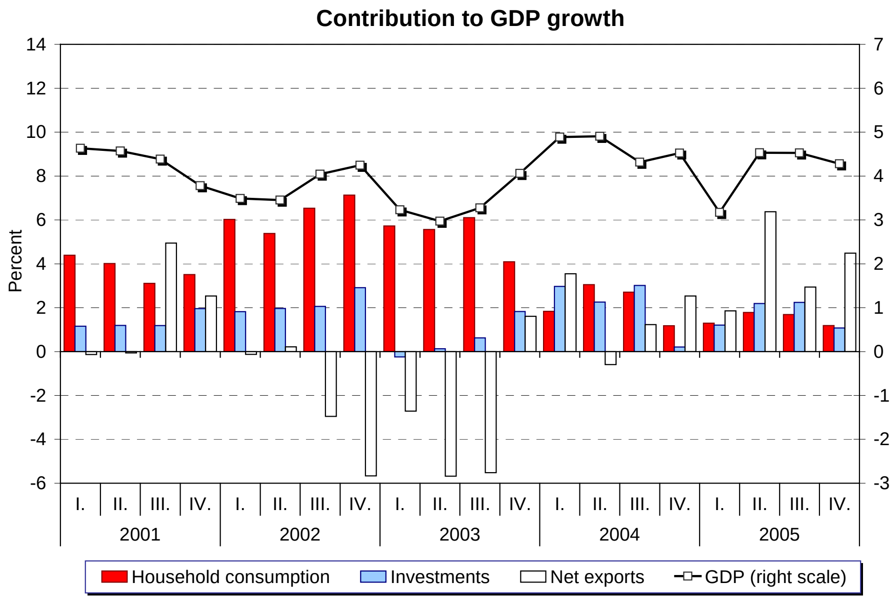
is substantially higher (4.3%) The growth rate accelerated in the first three quarters, while in Q4 a slight deceleration occurred (4.3%).

Since 2001, the 2.5-3-percentage-point growth differential of the Hungarian economy as compared to the EU average has stabilised. This contributes to the fast convergence of the country to the average level of development of Member States.



Growth structure continues to be sound

Growth showed a sound structure. In 2005, it continued to be driven by dynamic investment activity and outstanding export performance, while household consumption increased at a rate below GDP growth. Even though investment growth slowed down somewhat in the last quarter, this may represent only a temporary deceleration in light of the business cycle prospects for this year. As a result of the economic policy shift started in 2003, this favourable structure has been continuously perceivable for 9 quarters now, which is important for the long term sustainability of economic growth.



Of the Visegrád countries, the economies of Slovakia and the Czech Republic continued to perform well in the whole of 2005. Slovakia's growth structure was as favourable as that of Hungary, the driving forces being two-digit exports and investment growth. The dynamic growth of the Czech Republic was primarily due to net exports, while investment growth was rather low (3.7 %). Poland continues to be the tailender in the region.

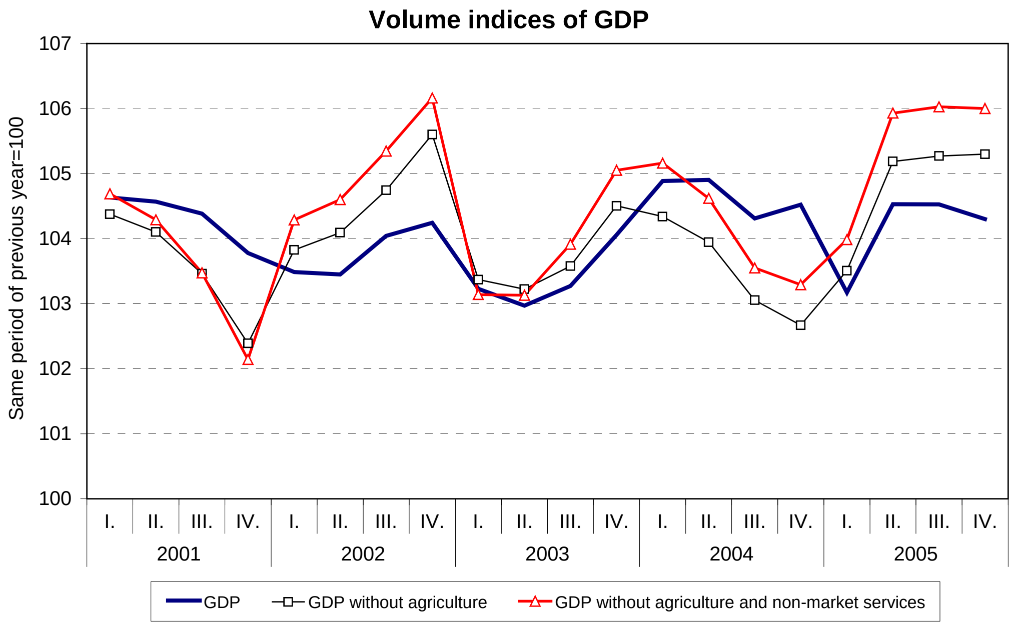
Dynamic investments, sustainable consumption

In Hungary, household consumption has been expanding continuously, and its growth rate below that of GDP, which is necessary for equilibrium, has stabilised since the beginning of 2004. In the whole of 2005, consumption growth amounted to 2.1%, which is slightly surprising in light of the 5.3% growth of real earnings and the 5.6% real growth of retail trade turnover, even if savings also increased considerably. As a result of a slow-down in Q4, the growth rate of gross capital formation amounted to 6.6%. Both government infrastructure investments and business investments expanded significantly. Domestic use of GDP increased by a mere 0,2%, as the statistical error in the inventory line reduced growth by 2.8%. Without the change in inventories, growth of almost 3% was observed.

The growth rate of the foreign trade of goods and services was dynamic in the whole year. Export growth remained in the two-digit range (10.6%), just as in 2004, while import growth, despite the significant acceleration following the modest increase of the first half-year, stayed below 6% (5.8%). The more modest import performance of the first half-year was attributable to the high basis due to the EU accession of 2004. Net exports contributed the most to economic growth (+3.9%).

Without agriculture and non-market services, growth amounted to 6%

This favourable structure is also present on the production side: in Q4, the value added by industry was 7.4 % higher than a year before, the value added by construction was up by 14%, the contribution of services by 4%. The output of agriculture showed a 11.7% decline due to the high base, while the value added by non-market services increased at a more modes rate due to budgetary austerity measures. Without those two sectors, GDP growth would have reached 6% in Q4 and 5.5% for the entire year, which indicates the dynamism of the Hungarian economy.



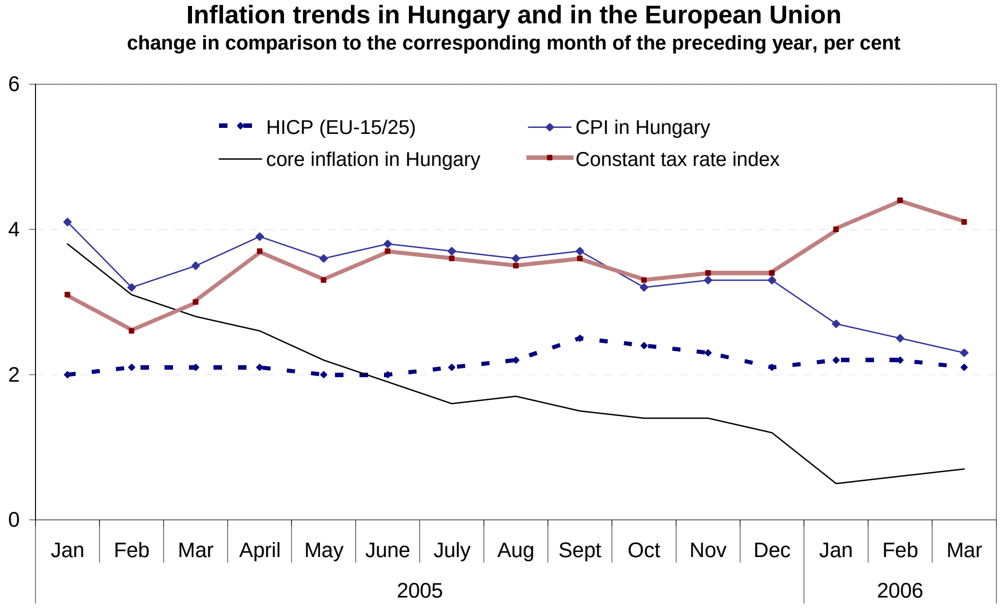
Stable growth close to 4.5% in 2006

As indicated by the most recent macro-economic figures, there are no signs of any downturn or even any major slow-down in 2006; both the Hungarian and the global economies are likely to be in the upturn of the business cycle. A significant improvement of the business confidence indices in the second half-year and Q1 of this year also indicates stable economic growth. The economy may proceed along the sound, sustainable growth path in 2006 as well, with GDP growth approximating 4.5 %.

3. Inflation

In March the Hungarian inflation rate approximated that of the euro area

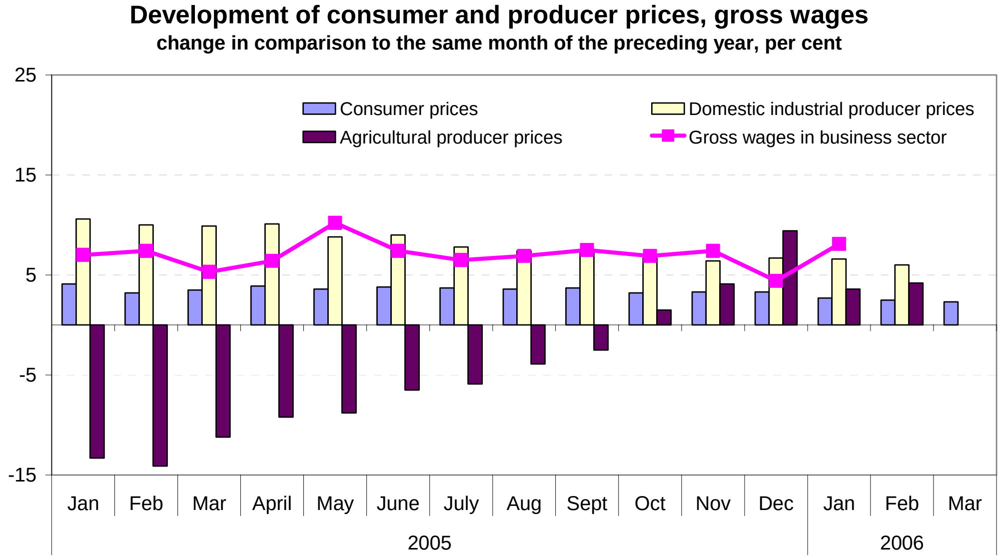
On annual average consumer prices increased by 3.6% in 2005; in December, the inflation rate was 3.3% on a year-on-year basis. The inflation rate turned out to be lower than forecasted or indicated in the Convergence Programme. The last time Hungary experienced such a low inflation rate was in the early 1970s. In 2006, the rate has been declining month by months, the price index being at 102.3 % in March. The reduction of the standard VAT rate played a major part in that development. The inflation rate for the EU-25 in March was 2.1%, and for the euro area, 2.2%.



The VAT rate cut had substantial deflationary effects

According to the calculation of the CSO, the combined effects on price levels of the changes of indirect taxes (VAT rate cut, raise of the excise tax and registration fee) amounted to some -1.7 percentage points. This calculation reckons with the changes of indirect taxes (except for tobacco products) on the basis of the so-called “immediate and total effect” principle. In Q1 2006, the constant tax rate index (CTRI) suddenly went up. The explanation for this lies in the above methodology: the CSO calculates this index as if the indirect tax rules of the previous year were still in effect. In economic terms this means that in case of a tax cut, the CTRI overestimates the “net” price increase, because it also contains the tax benefit not passed on by producers or traders.

The standard VAT rate cut and the rise of the excise tax resulted in the rearrangement of relative prices. Early in 2006, the prices of consumer durables, clothing articles and other manufactured consumer goods decreased in nominal terms as well, whereas in other areas (e.g., repair services) the rate of price increases slowed down considerably. The price reducing effect (mainly in January-February) fell short of the expectations of some analysts. The impact of the tax and price changes on demand and on its structure was difficult to estimate in advance. In the first two months of the year, retail trade, and in particular demand for manufactured articles and mainly for high-value durable goods increased faster than expected. Understandably, the trade sector exploited this by only partially passing on the effects of the VAT rate cut in its prices.



Former assumptions concerning prices have changed in some other aspects as well. High oil prices have direct inflationary effects on energy producing sectors and fuels, which causes inflationary pressure in other sectors of the economy as well. As a result of energy efficiency and the use of state-of-the-art technologies, the second-round inflationary effect is modest, especially higher up in the processing chain. As a factor of uncertainty of expected inflation, the Forint has weakened in recent weeks, and the exchange rate has become more volatile. So far, the increase of agricultural producer prices and of food prices has been higher than originally envisaged. Whether this becomes a lasting trend fundamentally depends on the agricultural and food supply of the Central European region. There are price pressures on certain services subject to regulated price regimes; these are offset by budgetary or other compensation techniques (household gas, electricity, long-distance transportation).

Exchange rate fluctuations and energy price increases have limited inflationary effects

Based on the current conditions, the inflation rate of 2 percent as an annual average, envisaged in the 2006 budget, is expected to be attained. However, the probability of former forecasts of lower price increases has become lower. The analysts' expectations disclosed in the March Reuters poll also support that proposition.

Annual average inflation around 2%

4. Income and financial developments

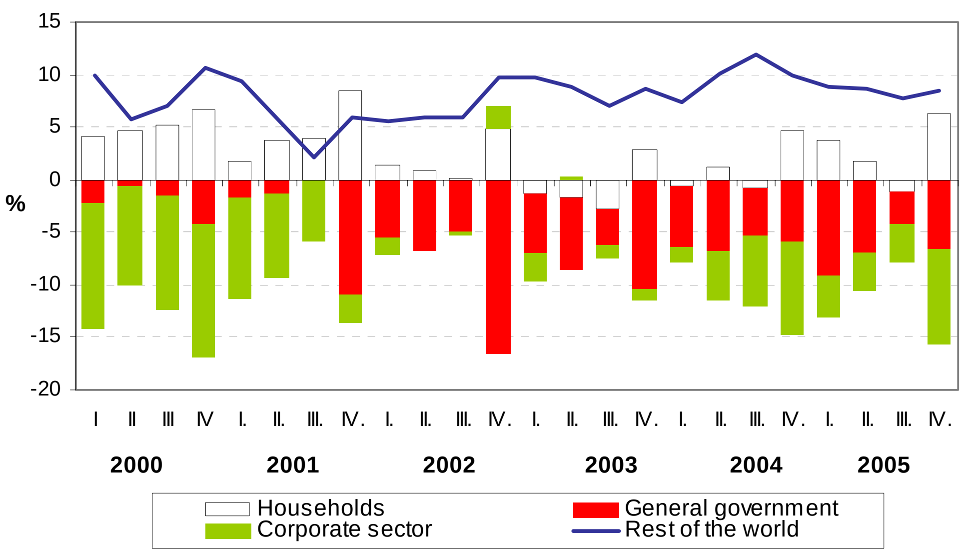
4.1 Equilibrium

The gap indicated by the year 2004 data in the statistics measuring the external financing requirements of the economy (balance of payments statistics and financial accounts) increased further in 2005. Nevertheless, both figures indicate declining external financing requirement. The external equilibrium indicator, from the financial account angle, corresponded to -8.4% of GDP, reflecting a 1.5 percentage-point improvement over 2004. The improvement is attributable primarily to the growth of the net savings of households. Without

Declining external financing requirement to GDP ratio, based on both financial accounts…

private pension fund savings, households contributed some 2.7% of GDP, over twice the previous year figure, to the financing of the economy. The general government deficit to GDP ratio developed in line with projections, increasing slightly over the 2004 levels. In contrast, the financing need of the corporate sector declined slightly (financial and non-financial corporations together: 5.2% of GDP, compared to 5.6% in the previous year). Within this, however, the net financing need of non-financial corporations rose by 0.4 percentage points due to the intensive growth in Q4.

Financing requirement / capacity of sectors* (in per cent of GDP)

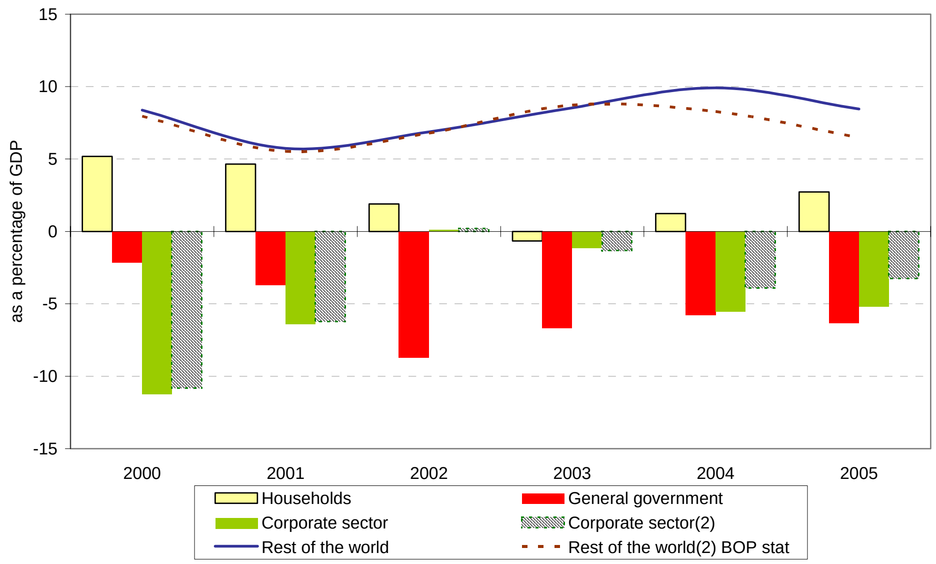


*Based on financial accounts, private pension funds in the general government sector

... and balance of payments statistics

According to balance of payments statistics, the external financing requirement to GDP ratio (the combined balance of the current account and the capital account) declined by 1.8 percentage points, amounting to 6.5% of GDP in 2005. When compared with financial accounts, the statistical difference increased from 1.6 percentage points in 2004 to 2 percentage points. (According to the NBH, this may be attributable to the change of the foreign trade data reporting after our EU accession, thus the difference is disclosed under the corporate sector). Despite the significant statistical difference, the profile of the trend of corporate financing requirements on the basis of balance of payment statistics would also show a curve similar to that of financial account. In 2004, in line with the pick-up of investments, the net borrowing of enterprises would increase by over 2.5 percentage points, while in 2005 it would decline slightly (by 0.7 percentage points) against the environment of a slight slow-down of investment growth.

Financing requirement / capacity of sectors*



* Private pension funds in the general government sector

In 2006, the expected acceleration of investment growth indicates the renewed growth of the net borrowing of enterprises, and the financing requirement of the sector as a percentage of GDP may increase by at least 1 percentage point. The trends of household savings may be affected by conflicting factors. The financing capacity of households may be increased by the slow-down of the growth of housing investments, while the potential increase of the repayments on foreign currency loans may reduce that capacity. According to conservative estimates, the net lending of households on the whole as a percentage of GDP may be around last year's level. The growth of the financing need of corporations may be offset by the envisaged reduction of the general government deficit. Thus the external financing requirement of the national economy may rise slightly only as a result of the temporary import increasing effects of the Gripen procurement, and, estimating from the non-financial account side, it may be around 6.5-6.8% of GDP as compared to 6.5% of 2005.

4.2 General government

The ESA deficit may be 6.1% of GDP in 2005,…

At the end of March, the Report prepared jointly by the CSO, the NBH and the Ministry of Finance on the ESA95 deficit of the government sector was completed and submitted to Eurostat, the statistical office of the European Union. Data about the year 2005 deficit of the government sector was supplied by the CSO based on the national accounts. Accordingly, last year's deficit (together with the private pension funds) was in line with projections, amounting to 6.1% of GDP.

... … and 5% in 2006

According to the 2006 budget, the proposed accrual-based deficit of the government sector (together with private pension funds) is 4.7% of GDP. 0.3 percentage points are added to this due to the latest Eurostat decision on the uniform accounting for military procurement. This year (and next year), expenditures need to be increased by the value of the Gripen fighter planes delivered in the country, irrespective of the arrangement and the actual payment schedule, upon the delivery of the planes. Thus the 2006 deficit in accordance with the EU methodology may be around 5 percent of GDP. The corresponding cash deficit on the level of the central government (central budget, social security funds and extra-budgetary funds) is HUF 1546 billion (6.6% of GDP).

Based on the interim cash flow figures, the deficit of the central government was HUF 789.2 billion (51.1% of the annual appropriation) in Q1. The central budget showed a deficit of HUF 682.7 billion, the social security funds generated a deficit of HUF 126.1 billion, while the extra-budgetary funds produced a surplus of HUF 25.6 billion.

In line with usual seasonality, the deficit increases faster early in the year

In line with the usual seasonality, the distribution of the deficit during the year is uneven. Some of the expenditures are concentrated early in the year, therefore the deficit increases at a faster rate in the first months. This is when the one-month additional salary is paid to public servants and civil servants, the advance funding of the curative-preventative care and pharmaceutical subsidies are remitted, to be settled later, the national agricultural subsidies supplementing EU payments as well as half of the 13th month pensions, to be paid in full in 2006, are paid, etc. On the other hand, tax revenues tend to be received more towards the end of the year (corporate profit tax payments, personal income tax, VAT receipts due to more substantial consumption at year-end), which offsets the effects of extra expenditures early in the year.

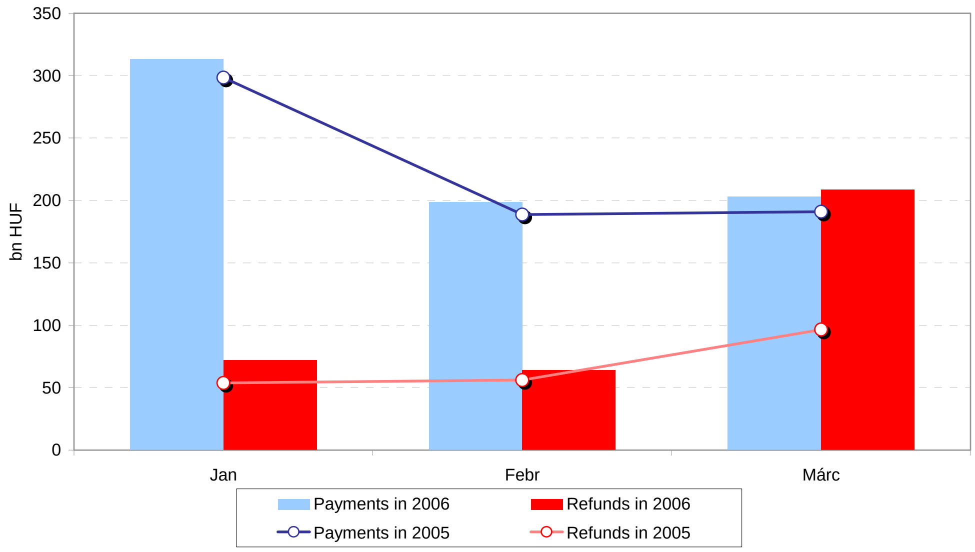
The tax reimbursements played a major part in the March deficit

The projections updated each month have reckoned with the peculiar seasonality of the budget. March was the first month when the budget did not develop in line with, or more favourably than, the forecasts, but turned out to be HUF 91 billion larger than expected. This was mainly attributable to factors which worsened the balance only temporarily and within the year. For instance, the payments related to EU programmes accelerated; these will later be reimbursed by the Community. However, the larger deficit was primarily caused by the lower personal income tax and VAT receipts due to reimbursements.

The PIT revenue of the central budget in March was over HUF 12 billion less than the forecasts, therefore it was essentially the same as last year. The growth was minimal even at the general government level (1.2%). This is because while receipts increased by over 7%, the higher number of tax returns submitted before the deadline (20 May) resulted in the reimbursements being almost one and a half times higher than last year. Reimbursements before the deadline will have no effect on annual revenues, only changing the trends during the year.

The other major deviation from the projections was in VAT revenues. While the payments were received in accordance with the reduced 20% rate since February, reimbursements were made according to the previous 25% rate until March. As a result, the balance of receipts/reimbursements became negative in March (almost HUF –6 billion), despite the fact that receipts were more than 6% higher than in the previous year despite the lower tax rate. In the whole of the quarter, the increase of gross VAT receipts came close to 5.5%, and, even after adjustment for the effects of the changes of the import VAT system, the decline was only 2% (while the top rate decreased by one fifth). After April, reimbursements have also been made on the basis of the 20% rate, therefore the imbalance between receipts and reimbursements will disappear in the forthcoming months.

VAT payments and refunds



On the expenditure side, the net expenditures of budgetary institutions and chapter-managed appropriations in excess of the time-proportionate amount (net of expenditures covered by own revenues or EU transfers) related mainly to the major expenditures customarily concentrated early in the year. The additional expenditures arose mostly in chapter managed appropriations (EU programmes, agricultural payments), while the net expenditures of budgetary institutions were HUF 9 billion less in March than last year, and increased by a mere 2.5% in the whole of the quarter as well.

The contribution revenues of social security were collected time proportionately, while pension payments and pharmaceutical subsidies exceeded that level. In the whole year, the increased pharmaceutical subsidy expenditures may be offset by the payments of manufacturers in line with the agreement, whereas pension expenditures are expected to exceed the appropriation (the additional pension increase was decided after the budget bill was submitted).

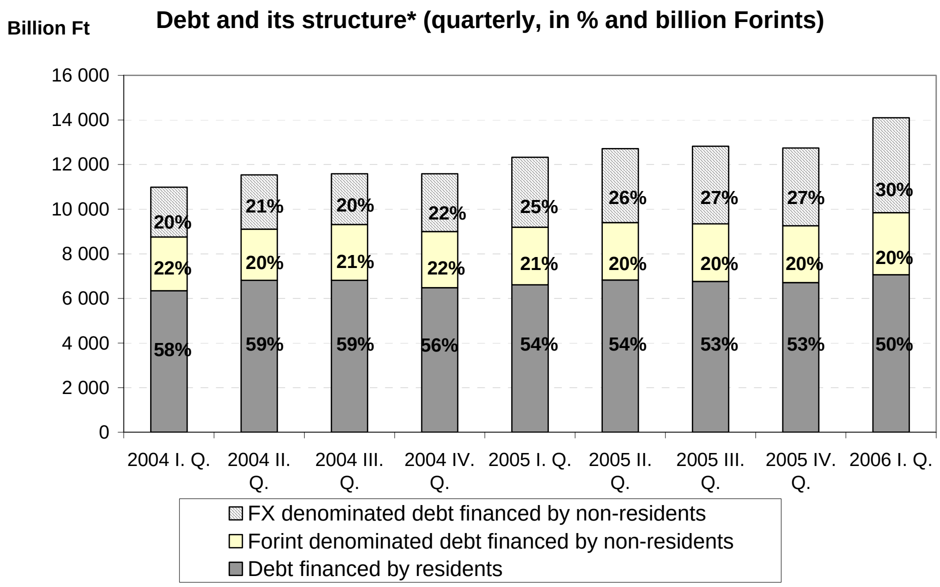
Taking into account the interim characteristics, based on the quarterly figures the appropriation of tax and contribution revenues may be achieved, indeed, certain additional revenues (registration tax, payments by local governments, receipts from debt servicing (repayment of the Kazakh national debt)) may offset the surplus of pension expenditures.

The Maastricht public debt increased by HUF 1047 billion, or almost 9%, since 2004, amounting to HUF 12,712.2 billion at end-2005. The increment of debt from the general government deficit was reduced by other factors, including the ones increasing (debt assumption, revaluation effect, as well as the replenishment of the equalisation reserve of the NBH) and reducing debt (assignment of the right of the management of state property). On the whole, these effects reduced the increase of debt by HUF 277 billion.

Last year, the debt ratio calculated with the Maastricht methodology and adjusted for pension funds was 58.4%, 1.3% points higher than in 2004. Two factors should be highlighted when examining the composition effect: GDP growth reduced the rate by 3.6 percentage points, while the general government deficit increased it by 6.1 percentage points.

The characteristics of financing last year were significantly affected by the uneven course of the development of the deficit. Within net government security issues, foreign currency financing became more emphatic than the ratios characteristic of several years back. Issues were made in favourable environments both in the Forint and foreign currency markets (declining yields, low spreads, good demand). During the year, net issues of approx. HUF 956 billion were made on the whole.

By the end of 2005, the average debt burden of the total debt was 6.08%, that of the Forint debt, 6.96%; duration increased during the year against the background of mostly declining yields.
Non-residents financed 27.4% of the entire foreign currency debt and almost 20% of the Forint debt, thus almost half of the total debt, at the end of last year.



** on cash basis*

The debt of the central government increased by over 10% as compared to the end of last year, thus the debt stock increased to HUF 14,103 billion. Forint debt increased by HUF 582 billion, and, as a result of new issues, the foreign currency denominated debt also increased by almost the same amount. The valuation effects increased the total foreign currency debt stock by almost HUF 200 billion.

As a result of the characteristics of budget processes and the trends early in the year, the seasonality seen last year appears to be present, or is to be expected, in 2006 as well, in the financing requirement of the Treasury scope. Foreign currency issues were adjusted to the seasonality of the financing requirement of the general government, therefore the bond issues planned for this year were implemented in the first quarter (EUR 1 billion, JPY 50 billion, GBP 500 million).

Early in 2006 the growth of the debt of the central budget accelerated, as a result of three factors. The increment was caused by the higher financing requirement due to the debt of the treasury scope being larger than expected or seen in previous months, the foreign currency revaluations (because of the 5% depreciation of the currency), and the Single Treasury Account balances increasing as a result of the substantial growth of financing.

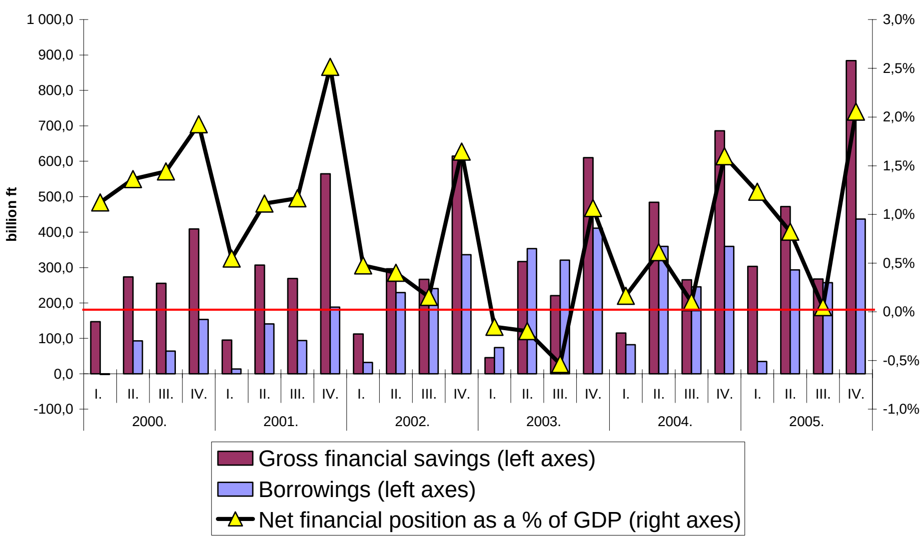
The forecasting of the end-2006 debt stock is hindered by several factors of uncertainty. In addition to the primary balance of the general government, mention should be made of the yield curve and the exchange rate fluctuations of the Forint, while for the debt ratio, in addition to the above, the economic growth and the inflation rate may both present downward or upward risks.

4.3 Financial savings of households

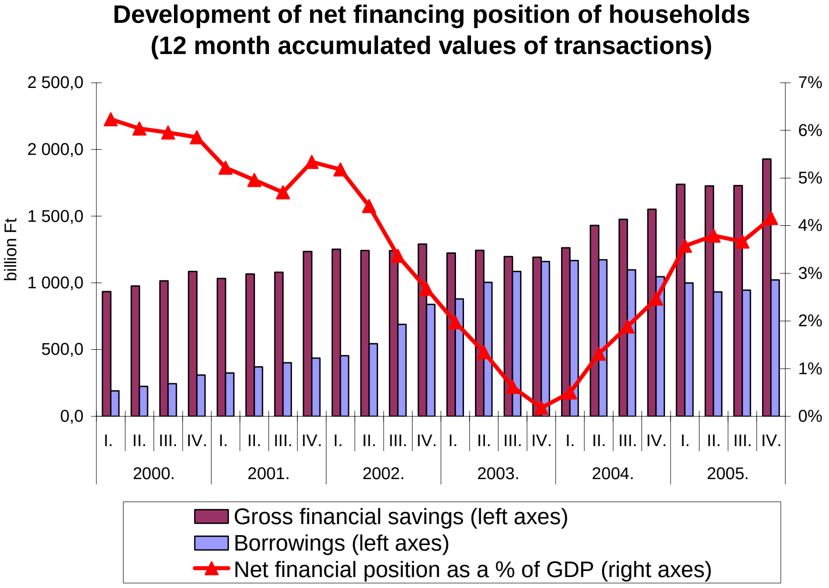
The financing capacity of households improved considerably

During 2005, the net saving position of households increased by HUF 905 billion. Net lending developed rather unevenly during the year. Following a relatively high level of savings in Q1, the net position of households dropped to practically zero by Q3. In Q4, as a result of the outstanding growth of gross savings, the net lending of households increased substantially again.

Development of gross savings and borrowings of households and their net financing position as a % of GDP



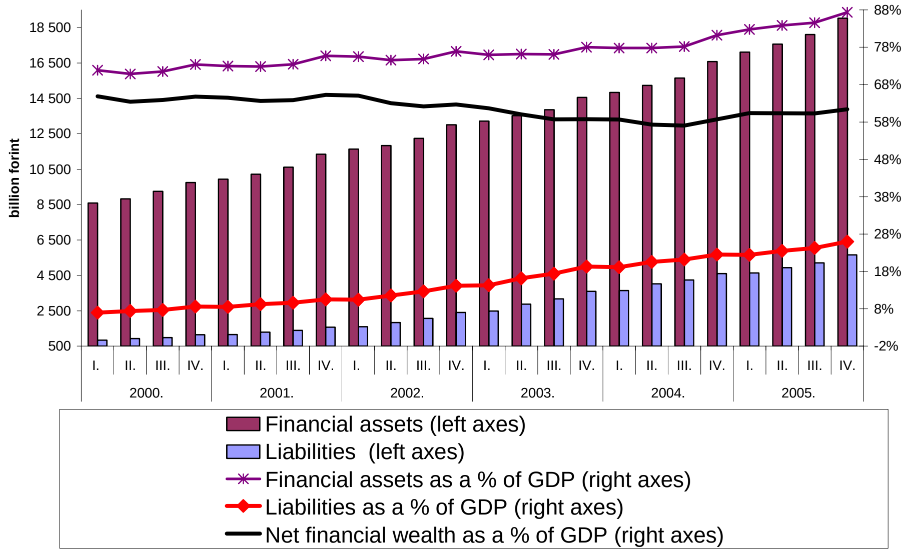
In Q1, the 12-month cumulative net position of households increased to 3.6% (from 2.5% in Q4 2004), then continued increasing slightly until Q3. In the last three months of the year, gross savings produced a dynamic growth, which is explained mostly by the seasonal increase of earnings.



The net lending to GDP increased to 4.16% annually (2.7% after adjustment for pensions), which is the highest value in the past three and a half years.

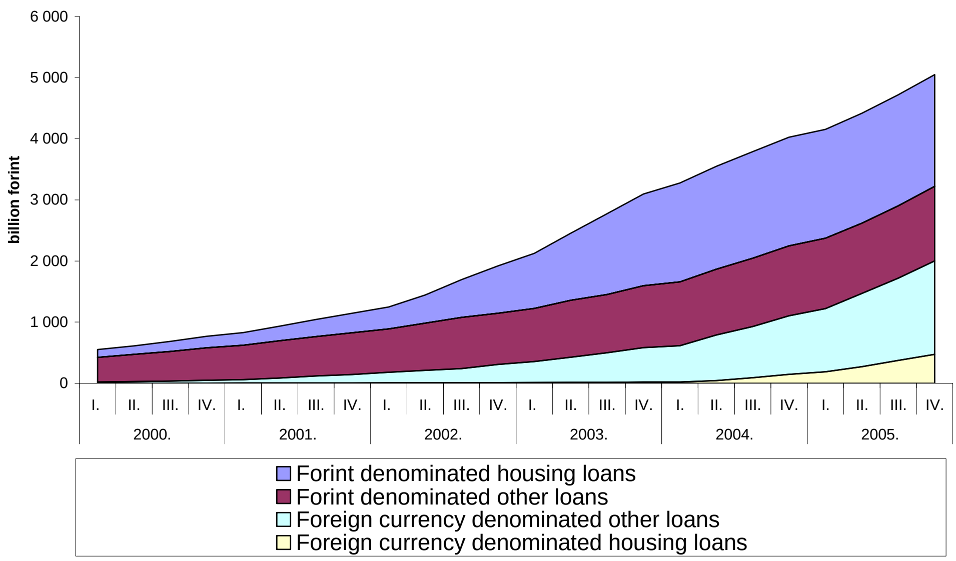
Following the low of 2003, the level of gross savings has continuously increased. The stock of liabilities of households increased at a decelerating pace after the peak of 2003, while after mid-2005 the growth rate started a slight acceleration again. The declining trend of the increase of liabilities is attributable partly to changing housing finance conditions, partly to the declining growth rate of household earnings in 2005 and the ever increasing rate of indebtedness. The growth of indebtedness, which started accelerating again in the middle of last year, is likely to be related to the increased outflow of income Following the low values in Q1, in the remaining part of the year the expansion of the credit stock of households resumed the approx. HUF 200-300 billion level seen in previous quarters.

Development of financial assets and liabilities



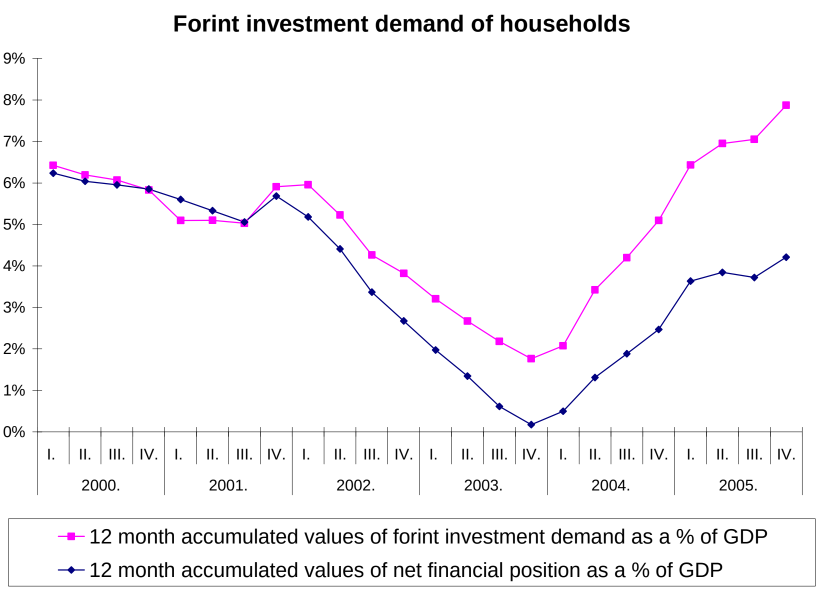
The net financial assets of households have been increasing continuously in the past 5 years. The seasonality discussed under net lending is also seen in the increase of net financial assets. The net financial assets to GDP ratio declined slightly until the second half of 2004, then the ratio started increasing slightly as the financing capability of households improved.

Composition of household loans



Dynamic growth of currency borrowing despite substantial risks

The currency structure of household borrowing changed significantly in the past five years. At the turn of the century, the Forint-denominated free-use, non-mortgage-backed loans represented the overwhelming majority of the credit stock. Since 2004, foreign currency loans produced the most dynamic growth, related mostly to the expansion of mortgage loans (housing, free-use mortgage). The growth rate of Forint loans was broken in 2004. During 2005, households borrowed 87.5 percent of their new loans in foreign currencies because of the substantial interest differential. At the end of 2005, foreign currency loans represented close to 40% of the total debt stock. The foreign currency borrowings of households present substantial risks if the exchange rate or interest conditions change. According to the experiences of Poland, in 2003 the 30% depreciation against the euro brought about only a temporary setback to the expansion of foreign currency loans against loans denominated in the local currency, and in 2005 the expansion of currency loans accelerated again. If the Forint depreciation started this March prevails, this may result in higher repayments for households. The devaluation of the Forint may cause a greater increase in the debt servicing burden of short-term, high-volume loans, while in case of loans with long terms to maturity, an interest rate hike may cause outstanding growth in instalments. Due to the substantial interest rate differential, foreign currency debt may be more favourable than Forint debt even if the Forint is substantially depreciated. Despite more favourable foreign currency borrowing conditions, the debt servicing burden increased by depreciation may be beyond the capacity of some households. During 2005, the foreign currency borrowing of households generated Forint demand of approx. EUR 3.3 billion.



The demand of households for Forint investments increased significantly

The net saving position of households conceals different trends of their Forint and foreign currency positions. While last year the financing capacity and general savings position of households improved, their net foreign currency indebtedness increased. As a result, the Forint financing capacity is greater than the general financing position. Thus, as the foreign borrowing increases, households generate ever increasing Forint investment demand on the market. By end-2005, the Forint investment demand from households increased from 5% at end-2004 to 8% of GDP, which is almost twice their net saving position. This created favourable conditions in 2005, and may also promote this year the financing of the general government with Forint instruments at favourable conditions.

4.4 Corporate sector

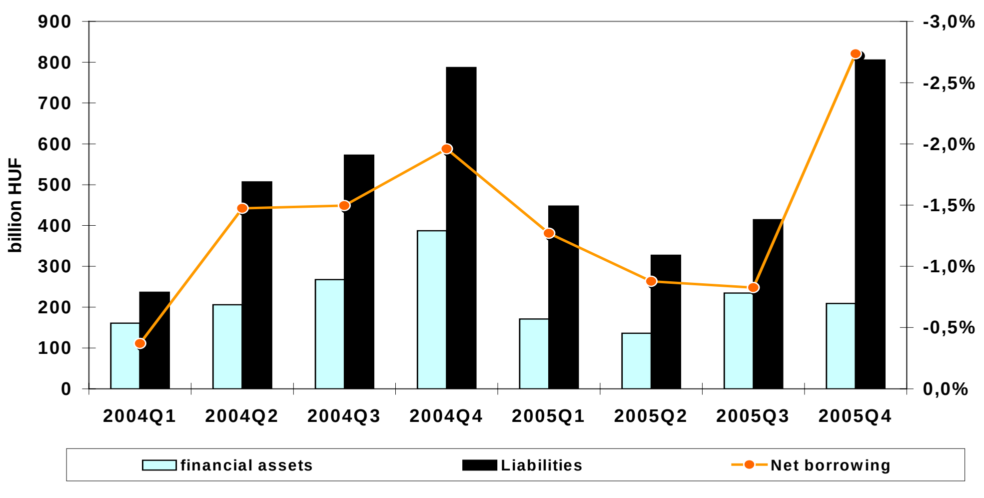
Foreign funds dominate in financing

In 2005, the financing requirement of the corporate sector (without credit institutions) increased somewhat over the level seen one year earlier. This was caused by the outstanding financing requirement of Q4 2005, which is attributable to a smaller increase of the financial asses of enterprises - at the end of 2004, a similar degree of increase in liabilities was somewhat offset by the growth of financial assets. As the ratio of foreign funds showed an increase during the year, 100% of the approx. HUF 1250 billion financing need was satisfied by foreign funds.

The net financial worth of non-financial enterprises continued declining in 2005, similarly to 2004, by over HUF 3000 billion. Also the financial assets of enterprises increased, but the rise of liabilities is especially noteworthy: this change is partly explained by the soaring stock exchange. The increase of liabilities was distributed, approximately half and half, between transactions and the revaluation - mostly that of shares. On the other hand, the outstanding increase in the liabilities of corporations in the last quarter was fully attributable to transactions.

Companies satisfied most of their financing requirements from foreign currency funds, just as in 2004. However, the distribution of foreign currency borrowing among quarters was completely different. The data of recent years indicate that companies consciously select the denomination of their funding, and monitor the exchange rate developments of the forint: the weakening of the forint results in more foreign currency borrowing. This has increased the open foreign exchange positions of companies, considering that their liabilities expanded much faster than their financial assets, although exporting companies have cash flow coverage in this respect. The FX-financing of the corporate sector in 2005 contributed to the forint's strength at a degree similar to that of households.

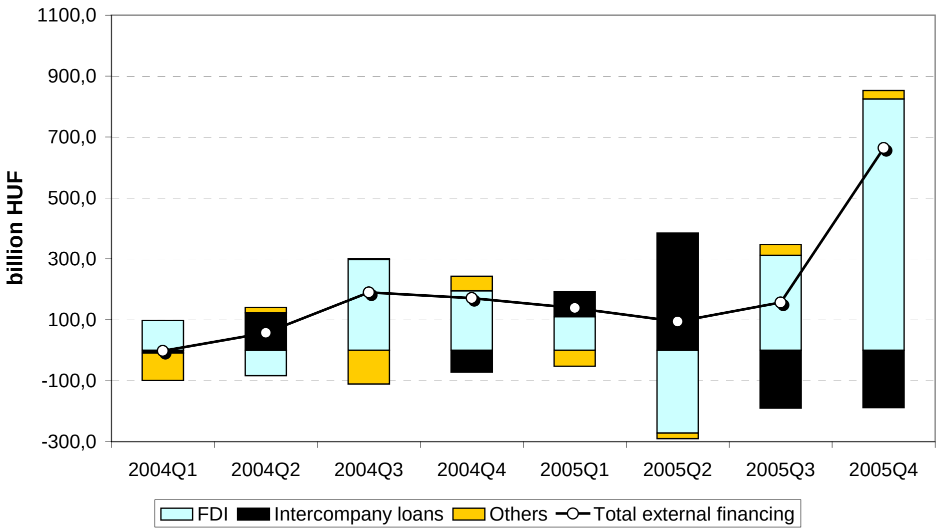
Non-financial corporations' net borrowing



*: yearly GDP for each quarter

In Q4 2005, the balance of payments indicates that the developments in foreign financing were similar to those seen in Q3. The only substantial difference originates in a one-off item, the FDI inflow substantially raised due to the privatisation of Budapest Airport. This applies for the whole year, that is, the total foreign investments into the corporate sector in Hungary exceeded the 2004 level approximately by the proceeds from BA Rt. It should be noted, however, that the inflow related to BA Rt. did not increase the funds available to companies because the government withdrew funds of equal size from the corporate sector. The decline of the foreign activity of Hungarian companies, seen in Q3, did not prove to be lasting, and in the last quarter of 2005 their foreign investments started rising again. Even so, in 2005 the investments of Hungarian companies abroad dropped by almost one quarter. Last year, in net terms two and a half times – or without the Budapest Airport transaction, almost one and a half times – more foreign capital flowed into the country than in 2004.

External financing of the corporate sector



As a result of the favourable external business cycle, the investment needs of companies are likely to continue rising, and only some of that need can be satisfied from their growing profits, therefore on the whole their net financing requirement may increase. In view of the above, as well as the fact that the external equilibrium needs to be improved, i.e., the external financing requirement needs to be reduced, to assure the sustainable development of the country, the position of the other two sectors (government + households) must be improved in the forthcoming years.

4.5 External equilibrium[3]

The current account deficit and…

In the whole of 2005, the current account deficit was EUR 6.4 billion, or 7.3% of GDP; as compared to the deficit of 2004, this represented an improvement of EU 570 million or 1.3 percentage points of GDP. The improvement was the result of the decrease of the trade deficit in the first half-year significantly

[3] Based on the NBH data published on 30 December 2005.

overcompensating the deterioration of the income balance.

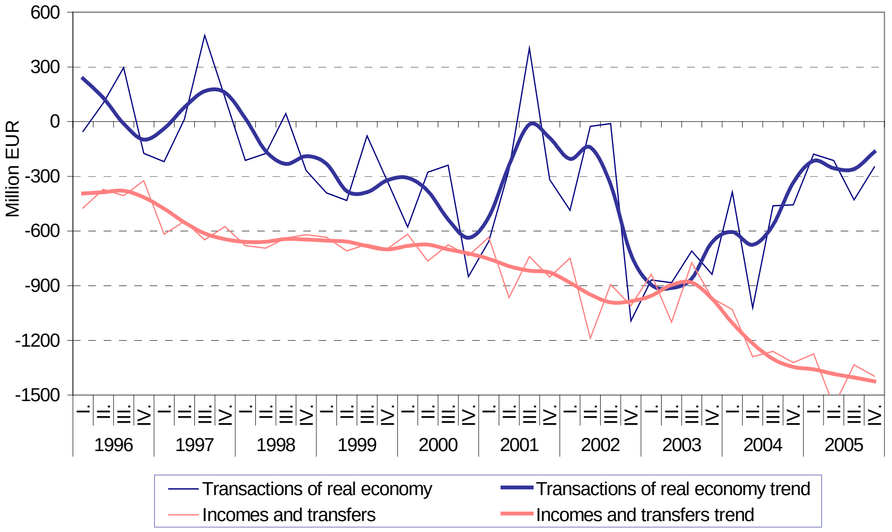
…the external financing need going down…

Alongside the decreasing current account deficit, the capital account balance improved significantly: Hungary received additional funds of EUR 452 million through EU capital transfers. This further reduced the external financing need, bringing it down to 6.5 % of GDP from the 2004 level of 8.3 %.

… primarily due to developments in the real economy

The deficit of the foreign trade balance was EUR 0.9 billion lower than in the base period. The 480 million surplus of services in 2005 reduced the current account deficit. The deficit of the trade of goods and services fell from 2.9 % of GDP to 1.2 %.

Transactions of real economy, incomes and transfers

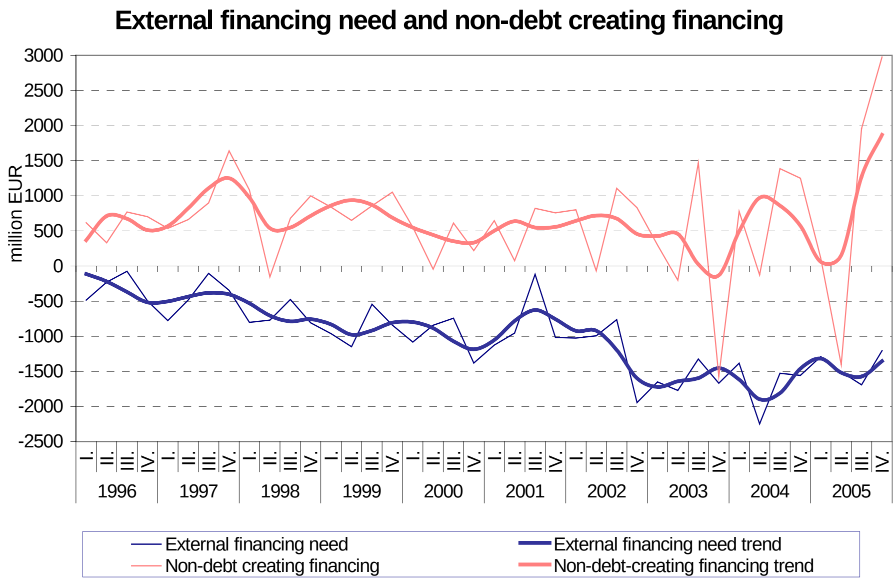


Net capital income increased

The deficit of the balance of incomes became the major item within the current account deficit, reaching 6.3 % of GDP in 2005 as opposed to 6 % in 2004. The value of interest and dividend type income at EUR 5.6 billion was EUR 0.7 billion up on the figure registered in 2004. Two thirds of the increment resulted from the increase of incomes realised on the expanding foreign investments. The continuous expansion of the stock of foreign direct investments and the profitable operation of the capacities thus created is a positive development, and it necessarily goes hand in hand with the increase of dividend income in the balance of payments. Owners re-invest a substantial part of the profit in Hungary. Over half of the increment of the capital income of non-residents arose as a result of the greater debt stock and the high interest rates.

Non-debt-creating financing increased substantially

The value of foreign direct investments in Hungary amounted to EUR 5.4 billion including privatisation proceeds, EU 1.6 billion more than in the base period. Within that, the EUR 5.2 billion FDI inflow exceeded the 2004 level by EUR 1.8 billion; the privatisation proceeds from the sale of Antenna Hungária and Budapest Airport represented EUR 2 billion. The direct investments of non-residents were made primarily in shares. In line with regional expansion, the investments of Hungarian residents aboard reached EUR 1.1. billion. Thus the net FDI inflow increased by EUR 1.4 billion, amounting to almost EUR 4.3 billion. At the same time, in line with international trends, capital outflow also occurred through the portfolio channel during the year, with the exception of Q3. As a combined result, 64% of the current account deficit was funded by non-debt-creating financing (of EUR 3.6 billion). Together with inter-company loans, non-debt-creating financing reached EUR 4 billion, which financed 71% of the current account deficit.



The growth of net debt originated in the borrowing of the private sector

In 2005, the net debt (without intercompany loans) increased by EUR 3.2 billion to EUR 24.7 billion, growing from 26.5% to 28.2% of GDP. Within total debt, the debt of the general government and of the NBH declined by EUR 1.3 billion, or 2.6% of GDP (to 11.9%). In 2005, the growth of net debt originated entirely in the higher external fund-raising of the private sector: the debt of the private sector rose by EUR 4.5 billion, or from 12% to 16.3% of GDP.

The gross debt of the general government and the NBH increased by only 1 percentage point

In 2005, the net debt (without intercompany loans) amounted to EUR 57.5 billion, which represents a growth of EUR 10.2 billion since 2004; of this, the growth of reserves amounted to EUR 4 billion. At the end of 2005, the value of reserves reached EUR 15.7 billion, thus the import coverage ratio increased to over 3 months from the 2.5 months in 2004. Only some 30% of the growth of gross debt was attributable to the borrowing of the general government and of the NBH. As a percentage of GDP, the gross debt rose by 7%, from 58.1 % to 65.4 %, while the debt of the general government and of the NBH was only 1 percentage point higher than in 2004.

In 2006, no improvement of the balance is to be expected in the trade of goods and services due to the expanding import requirement of the growing economy and investments and the Gripen import increment. The growth of net (debt creating and non-debt-creating) revenues is only slightly offset by the excess revenues received from EU institutions. Based on all that, the current account deficit (with Gripen purchases) is expected around EUR 6.7-6.7 billion, or 7.3-7.6 % of GDP; the external financing requirement, as a percentage of GDP, is estimated to be between 6.5% and 6.8%. Without the non-recurring Gripen importation (amounting to almost EUR 320 million), the current account deficit would be around the year 2005 level both in volume terms and as a percentage of GDP.

5. Monetary developments

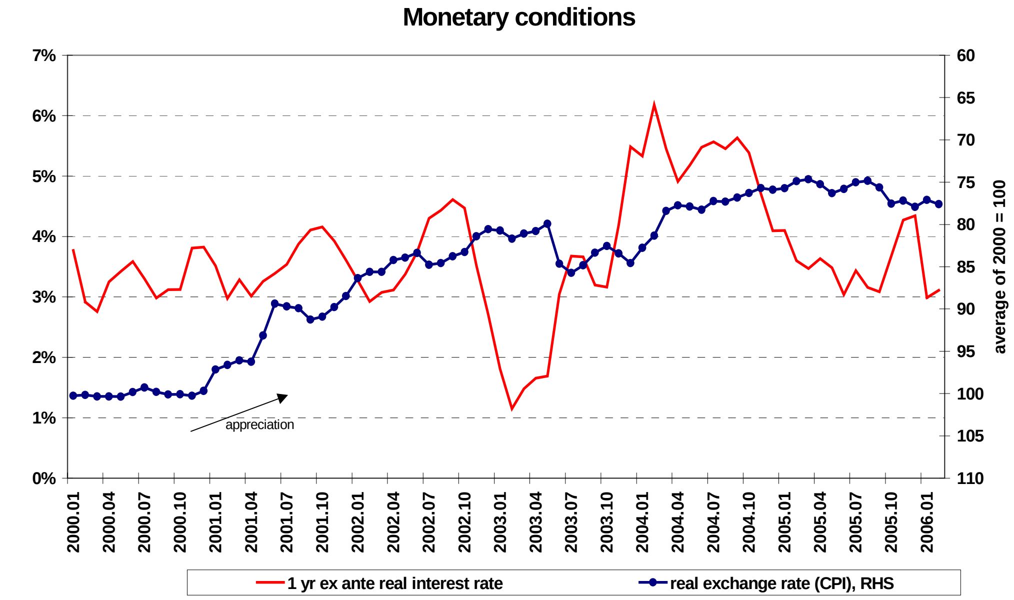
5.1 Monetary conditions

Last year, yields, particularly short-term, developed more favourably than projected in the Convergence Programme. This was supported by the international environment as euro yields were also lower than expected in 2005. Between January and August, the Monetary Council reduced the base rate by 3.5 percentage points; the base rate has been at 6% ever since. Early in 2006 forint yields were still declining, then they started rising, though short-term yields did not depart much from the base rate.

Monetary conditions may ease in 2006

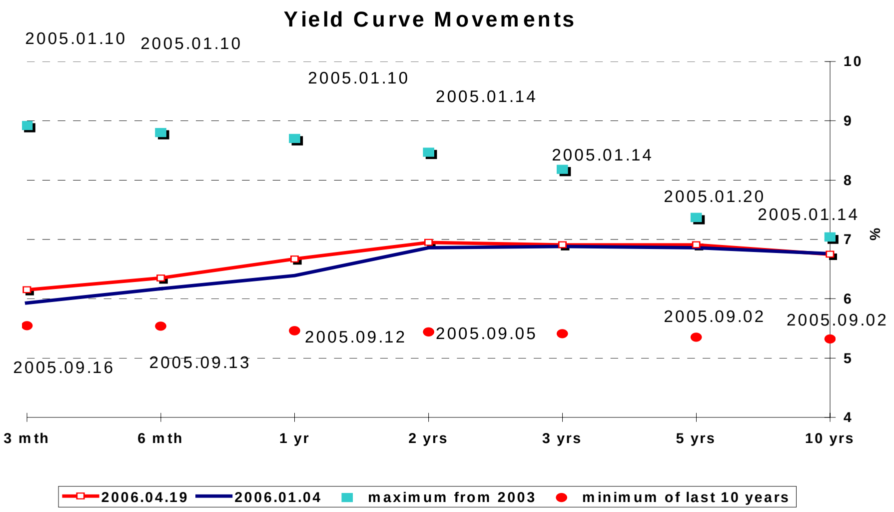
Monetary conditions may ease in 2006. The minimal (practically zero) Euro area-Hungarian inflation differential, the stable inflation prospects accompanied by the weakening forint and the yields not increasing substantially despite this (stable ex ante real interest rates) in combination are indicative of the easing of conditions.

Monetary conditions will be affected considerably by the changes of the demand effects of the general government during the year. The reduction of the government deficit expected for the remaining part of the year in line with budgetary projections may result in the stabilisation of the forint exchange rate even in the environment of declining yields. Monetary conditions are influenced not only by the various economic policy scenarios but also, and importantly, by the international financial environment. In leading economies, the base rate has been rising recently and the central banks of major importance for us are expected to implement further monetary tightening measures in the remaining part of the year



In recent years, yields have generally been low due to high global liquidity. This facilitated financing in countries requiring capital The yield level in Hungary is higher than in neighbouring countries, which is attributable to the country's equilibrium indicators.

The entire euro and dollar yield curve has been rising this year, which definitely pulled forint yields upwards as well. However, as the Hungarian base rate remained the same, short-term forint yields did not change despite the deteriorating rating of the country, therefore the short-term interest rate differential became narrower. Our long-term yields changed in line with the euro and dollar yields, that is, spreads have remained effectively unchanged. In regional comparison, the five-year forward premium five years ahead over euro yields, which indicate yield convergence, have been very high for years in regional comparison; this is why they have not changed to any appreciable extend despite adverse developments this year.



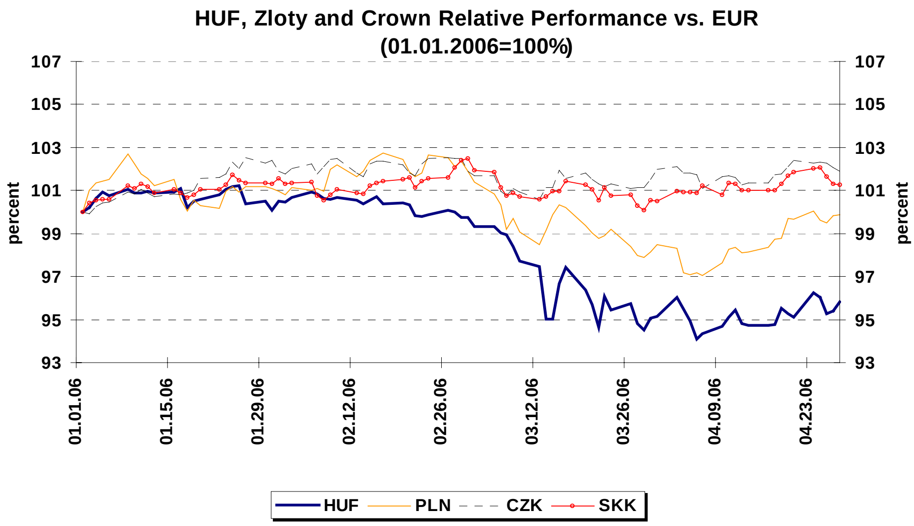
As a considerable change compared to previous months, when the forint-euro interest rate differential tended to increase upon adverse domestic or external news, this time the spread of euro-denominated Hungarian securities increased significantly. Our long-term euro yields increased by 120 basis points between September 2005 and April 2006; 20-25 basis points of this represented the increase of spread indicating sovereign risk, which is now higher than that of Poland. All this increases the costs of financing of the public debt. On the other hand, the gradual strengthening of the credibility of economic policy may reverse these trends, and our spreads may decline to the levels of the neighbouring countries.

5.2 Exchange rates

Since early March, the Forint has weakened more than the other

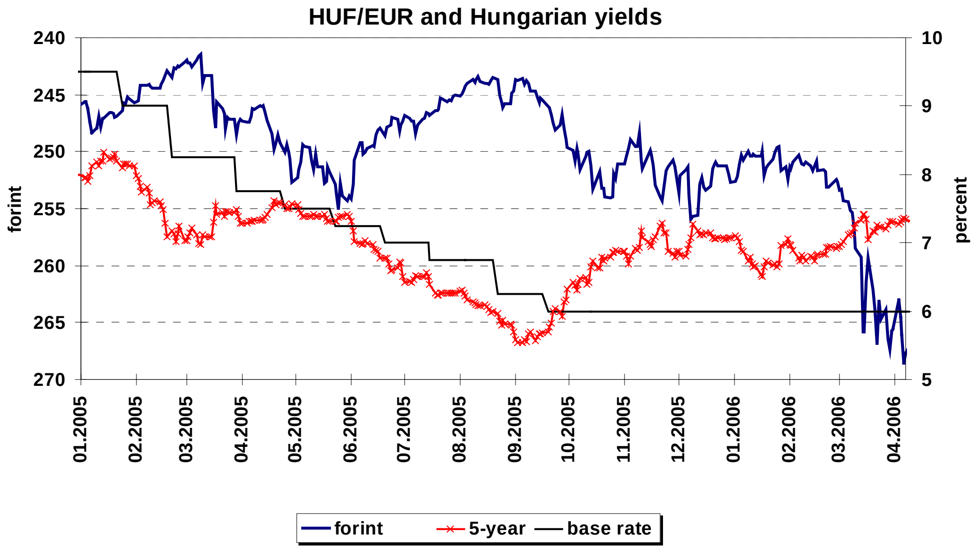
The exchange rate of the Forint fluctuated in the 241-257 HUF/EUR range for approximately two years, between early March 2004 and early March 2006. This exchange rate level contributed significantly to the lasting deceleration of inflation. On the other hand, the international investment sentiment has recently responded more sensitively to any inbalances in various countries. Even though the triggers are not related directly to this region, the currencies of the Visegrád countries have also started to weaken. In the first two months of the year, there was no substantial difference between the trends of the currencies of the region. Following the weakening in early March, however, trends developed along markedly different paths. The Czech and Slovak Crown soon strengthened back to the previous level; the Zloty continued weakening, but at a slower rate than the Forint. International developments may have also played a role in the exchange rate changes, but the market's assessment of domestic developments must have been the dominant factor.

currencies of the region



Even though the Forint weakened, it continued to be on the strong side of the band, in line with the trend experienced since the widening of the band in May 2001. In case of a fiscal policy in line with the budget approved for 2006, the probability of any major Forint depreciation continues to be low. Even though the expectations of analysts shifted after the substantial weakening of the Forint in March, but according to the latest Reuters poll of 20 April analysts generally expect no further substantial depreciation; indeed, they expect gradual strengthening, with the Forint fluctuating around 260 HUF/EUR throughout the time horizon of the forecast (up to the end of 2007).

The Forint continues to be on the strong side of the band



Because of the weaker and more volatile Forint, the net foreign currency borrowing position of businesses and households alike may represent a higher factor of uncertainty in respect of existing foreign currency loans for those where hedging is not common (most SMEs, households).

The characteristics of the borrowing of the household and business sectors have played an important role in the stability of the Forint. In 2005, these two sectors had substantial net foreign currency borrowing, amounting to some EUR 6 billions, which fully covered the external financing requirement. However, we should proceed with caution in this area, because the dynamic growth rate of foreign currency borrowing may slow down. If the foreign currency financing of these two sectors comes to a halt or slows down for any reason, it may create a new situation in meeting the external financial requirement, and may necessitate the use of other channels of foreign currency funding.

Budapest, 26 April 2006

TABLES

Table 1.

Economic indicator (cumulative data, from the beginning of the year)

1. Real sector, Prices, Competitiveness

percentage change, compared to the same period of previous year

	2000	2001	2002	2003	2004	2005										2006		
						I. quarter	1-4. month	1-5. month	I. half of year	1-7. month	1-8. month	I-III. quarter	1-10. month	1-11. month	I-IV. quarter	1. month	1-2. month	I. quarter
GDP volume	5.2	4.3	3.8	3.4	4.6	3.2	-	-	3.9	-	-	4.1	-	-	4.1	-	-	-
Household consumption	5.0	5.8	9.7	7.8	3.1	1.8	-	-	2.2	-	-	2.3	-	-	2.1	-	-	-
Government consumption	1.2	1.2	6.6	7.9	0.9	-1.3	-	-	-1.4	-	-	-1.5	-	-	-1.4	-	-	-
Gross fixed capital formation	7.7	5.9	9.3	2.5	8.4	6.8	-	-	8.3	-	-	8.5	-	-	6.6	-	-	-
Domestic use	4.8	2.4	5.9	6.2	2.8	1.3	-	-	-0.3	-	-	0.3	-	-	0.2	-	-	-
Export of goods and services	22.0	8.0	3.9	7.8	16.4	6.4	-	-	8.9	-	-	9.8	-	-	10.6	-	-	-
Imports of goods and services	20.3	5.2	6.6	11.1	13.2	4.2	-	-	4.0	-	-	5.2	-	-	5.8	-	-	-
Volume of investment	7.4	3.5	7.8	2.2	7.8	6.8	-	-	8.3	-	-	8.5	-	-	6.4	-	-	-
Volume of industrial production	18.1	3.6	2.8	6.4	7.4	2.0	4.0	5.8	6.0	6.0	6.7	7.0	7.3	7.4	7.5	13.9	12.6	-
Volume of construction	7.5	8.3	17.8	2.0	5.8	9.1	10.7	10.2	13.2	13.8	13.7	17.0	16.5	16.6	16.6	14.1	5.4	-
Foreign trade turnover: export volume	21.7	7.8	6.8	9.1	18.4	7.7	10.2	10.5	10.2	9.0	9.9	10.6	10.2	10.6	10.8	18.7	16.7	-
import volume	20.8	4.0	6.1	10.1	15.2	4.0	3.0	3.3	3.2	3.2	4.6	4.8	4.7	5.1	5.3	14.4	12.5	-
Volume of retail trade turnover 9/	2.0	5.4	10.7	8.4	5.6	2.9	2.1	2.7	3.6	3.4	3.8	4.0	4.2	4.6	4.5	7.2	7.1	-
Number of employees (in thousands) 1/ -household survey	3,856.2	3,868.3	3,870.6	3,921.9	3,900.4	3,870.6	3,872.3	3,877.3	3881.1	3888.1	3892.2	3896.6	3901.4	3902.4	3901.5	3,889.2	3,878.4	3,885.3
-labour statistics	2,698.4	2,722.0	2,726.3	2,753.0	2,789.6	2,773.9	2,776.9	2,780.8	2784.3	2786.4	2787.2	2788.5	2789.3	2788.8	2786.5	2,749.0	2,751.5	-
Vacancies (in thousands) 2/	39.2	37.3	34.0	44.0	48.2	35.9	38.3	39.9	40.8	41.3	41.5	42.2	42.4	42.0	41.3	31.5	37.4	40.9
Number of unemployed (in thousands) 2/	372.0	342.8	344.9	359.9	376.0	435.3	431.3	424.9	418.8	415.9	413.9	412.6	410.9	409.9	409.9	436.5	440.8	434.8
Rate of unemployment (household survey, %)	6.4	5.7	5.8	5.9	6.1	7.1	7.2	7.2	7.1	7.1	7.2	7.2	7.2	7.2	7.2	7.7	7.8	7.7
Consumer price index	- 9.8	9.2	5.3	4.7	6.8	3.6	3.7	3.6	3.7	3.7	3.7	3.7	3.6	3.6	3.6	2.7	2.6	2.5
Index of industrial domestic sale prices	14.5	9.4	1.6	5.0	8.4	10.2	10.2	9.9	9.7	9.5	9.2	9.0	8.7	8.5	8.4	6.6	6.3	-
Index of industrial export sale prices	8.6	1.5	-4.5	0.3	-0.4	-0.7	-0.1	0.5	0.7	0.8	0.8	0.8	1.0	1.1	1.3	2.6	2.9	-
Agricultural production prices	22.5	4.9	-1.1	5.3	-5.4	-12.9	-11.9	-11.5	-10.5	-6.2	-5.5	-5.5	-3.3	-0.4	0.7	3.6	3.3	-
Competitiveness 8/:																		
based on CPI	-2.0	-7.7	-9.1	-1.4	-5.8	-7.1	-6.1	-5.3	-5.0	-4.7	-4.5	-4.2	-3.6	-3.1	-2.6	2.0	2.8	4.2
based on manufacturing prices	-5.5	-9.1	-7.9	-0.9	-5.8	-7.7	-6.6	-5.7	-5.1	-4.6	-4.2	-3.8	-3.3	-2.8	-2.4	0.9	1.4	-
based on ULC (value added)	-3.3	-7.4	-10.0	2.6	-3.7	-7.7	-	-	-3.2	-	-	-2.1	-	-	-	-	-	-

Table 2.

Economic indicator (cumulative data, from the beginning of the year)

2. Income and Monetary Aggregates

percentage change, compared to the same period of previous year

	2000	2001	2002	2003	2004	2005												2006		
						1. month	1-2. month	I. quarter	1-4. month	1-5. month	I. half of year	1-7. month	1-8. month	I-III. quarter	1-10. month	1-11. month	I-IV. quarter	1. month	1-2. month	I. quarter
Average earnings : gross	13.5	18.0	18.3	12.0	6.0	26.2	17.4	13.7	11.9	11.5	10.6	10.2	9.8	9.5	9.2	9.0	8.8	6.1	7.2	-
net	11.4	16.2	19.6	14.3	5.6	23.1	16.5	13.7	12.3	12.1	11.4	11.1	10.8	10.6	10.4	10.2	10.1	7.6	8.3	-
Household: savings (HUF billion)	1,032.3	1,605.8	1,656.7	1,542.9	2,000.2	-	-	535.9	-	-	990.1	-	-	1,526.7	-	-	2,455.9	-	-	-
credits (HUF billion)	240.6	429.3	827.4	1,196.7	1,002.4	-	-	39.7	-	-	330.6	-	-	602.0	-	-	1,059.6	-	-	-
General government GFS balance (HUF billion) 3/	-480.2	-444.0	-1,685.6	-1,103.5	-1,327.9	-198.4	-393.9	-484.9	-710.0	-837.7	-988.1	-936.4	-996.4	-1,059.5	-1,061.6	-1,197.1	-984.4	-140.4	-435.5	-789.2
Central budget GFS balance (HUF billion)	-368.7	-402.9	-1,469.6	-732.4	-904.5	-199.1	-379.0	-373.1	-589.0	-680.5	-798.6	-741.3	-769.0	-780.9	-738.7	-744.7	-545.0	-144.4	-440.6	-682.7
primary balance (HUF billion)	329.7	212.9	-832.0	-4.1	-103.0	-167.7	-217.4	-189.9	-288.5	-338.4	-341.5	-267.4	-224.4	-216.9	-61.1	-4.3	253.5	-104.6	-249.6	-460.6
revenue change	14.2	10.5	7.1	13.3	8.0	26.7	19.6	22.3	10.6	11.1	15.6	16.5	18.3	16.9	16.8	15.3	21.1	5.7	8.8	-5.9
expenditure change	13.7	10.4	30.3	-2.7	10.0	23.2	27.6	17.6	16.2	15.7	9.6	9.3	10.4	7.6	7.6	7.6	12.3	-3.1	10.9	12.1
Social Security Funds 4/: balance	-81.4	-28.8	-100.9	-349.0	-423.9	-9.8	-38.4	-136.9	-153.9	-186.0	-220.6	-240.3	-271.9	-320.7	-372.1	-502.2	-469.8	-15.1	-24.0	-126.1
revenue change	10.7	18.6	17.2	4.6	7.9	24.1	26.8	11.1	15.9	17.7	11.8	13.4	14.6	10.6	10.9	11.5	11.0	5.9	11.4	13.4
expenditure change	12.5	14.9	20.4	14.2	9.6	2.1	6.6	15.7	14.4	10.7	11.1	11.2	11.1	10.9	10.8	11.3	10.9	7.6	8.1	10.2
Government paper benchmark yields (average annual) 5/																				
3 month	11.8	9.8	8.2	12.0	9.1	8.8	8.2	7.3	7.4	7.3	6.9	6.5	6.1	5.7	6.0	6.1	6.0	5.9	5.9	6.2
12 month	11.6	9.2	8.0	11.7	8.7	8.5	7.5	7.2	7.4	7.4	6.9	6.4	5.9	5.6	6.1	6.4	6.4	6.2	6.3	6.7
3 year-bonds	10.7	8.2	7.4	10.2	8.5	8.1	7.9	7.2	7.5	7.4	6.6	6.2	5.9	5.6	6.4	6.9	7.0	6.8	6.9	7.0
5 year-bonds	9.1	7.7	7.0	9.3	7.9	8.2	7.2	7.4	7.2	7.2	6.9	6.4	6.1	5.8	6.8	6.9	6.9	6.5	6.6	7.2
10 year-bonds	9.0	7.1	6.5	8.0	7.1	7.4	6.6	7.1	6.8	7.0	6.7	6.3	6.0	5.8	6.8	6.8	7.0	6.5	6.6	7.1
15 year-bonds		6.7	-	-	-	6.8	-	6.7	6.9	-	6.4	-	5.8	-	6.4	-	6.8	-	6.8	6.9
Interest rates 5, 6/:			-	-																
with maturity less than a year: credit	12.8	11.2	9.7	13.4	11.0	10.4	9.9	9.3	9.0	8.6	8.5	8.3	8.0	7.8	7.7	7.5	7.4	7.0	7.4	
deposit	9.5	8.4	7.4	11.0	9.1	8.6	8.0	7.4	7.0	6.5	6.3	6.2	5.8	5.5	5.3	5.3	5.2	5.4	5.3	
with maturity more than a year: credit	13.4	11.2	9.7	13.0	11.2	10.5	11.0	10.4	10.3	10.7	9.6	10.8	9.6	8.6	9.3	9.4	9.7	7.3	8.4	
deposit	9.4	7.7	8.0	10.8	8.3	7.5	7.0	5.2	6.7	5.2	6.1	6.0	5.0	4.7	5.0	5.8	4.9	5.6	4.8	
Balance of current account (EUR million)	-4,352	-3,577	-4,929	-6,382	-6,976	-	-	-1,462	-	-	-3,151	-	-	-4,920	-	-	-6,406	-	-	-
External financing need (EUR million)	-4,053	-3,219	-4,727	-6,414	-6,716	-	-	-1,291	-	-	-2,797	-	-	-4,488	-	-	-5,694	-	-	-
Non debt creating financing (EUR million)	1,340	2,303	2,670	-11	3,290	-	-	111	-	-	-1,295	-	-	662	-	-	3,639	-	-	-
Foriegn direct investment inflows (millió EUR)	2,998	4,391	3,185	1,887	3,754	-	-	1,043	-	-	2,316	-	-	2,797	-	-	5,356	-	-	-
Net foreign debt (EUR million) 7/	9.7	8.4	11.5	16.6	21.2	-	-	21.6	-	-	23.6	-	-	24.5	-	-	24.7	-	-	-
BUX index 2/	7,865	7,122	7,739	9,627	14,743	15,553	18,383	17,108	16,378	16,908	18,741	20,723	21,573	22,949	20,526	21,174	20,785	22,203	23,220	23,065

METHODOLOGICAL REMARKS
for Table 1 and 2

Signs: * Preliminary data; **.** : data is not available yet; **-** : no data for the period

1/ Data for firms with more than 5 employees and for budgetary institutions total.
2/ End of period data.
3/ Excluding privatization receipts and contributions paid into the compulsory funded pension funds.
At the general government the interim data do not include the local governments.
4/ Total revenues and expenditures of the Pension Fund and Health Fund are not consolidated
with the non-self-provided services.
5/ The yield or interest in the last month of the period.
6/ At deposits with maturity longer than a month but not longer than a year.
7/ Excluding intercompany loans
8/ Price based indicators seasonally non-adjusted, unit labour cost based indicators seasonally adjusted
9/ Including sales of motor vehicles and antomative fuel